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CANADA

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS

for the
FISCAL YEAR ENDED MARCH 31

1960

1959/60





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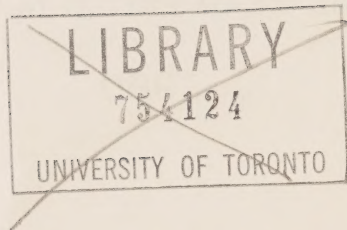
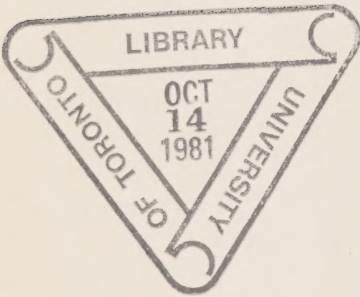


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THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act. Section 70 of the Act requires that the Auditor General report annually to the House of Commons on the results of his examinations of the accounts of Canada.

2. My examinations of the departmental accounts for the fiscal year ended March 31, 1960 were made in conformity with Section 67 of the Financial Administration Act which reads as follows:

"The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion

- (a) the accounts have been faithfully and properly kept,
- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
- (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property."

3. In addition, Section 70 of the Financial Administration Act contains the following direction:

"The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
- (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
- (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
- (d) an expenditure was not authorized or was not properly vouched or certified,
- (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
- (f) a special warrant authorized the payment of any money,

and to any other case that the Auditor General considers should be brought to the notice of the House of Commons."

Comments upon the cases brought to the notice of the House under this direction are to be found in paragraphs 41 to 84 of this report.

4. The Statement of Expenditure and Revenue for the year ended March 31, 1960, and the Statement of Assets and Liabilities as at that date, prepared by the Department of Finance for inclusion in the Public Accounts, have been examined and certified by me as required by Section 69 of the Financial Administration Act, subject to my comments in this report to the House of Commons. Copies of these financial statements are attached hereto as Appendices 1 and 2, respectively. Copies of the Summary of Appropriations, Expenditure and Unexpended Balances, by Departments, and of the Summary of Revenue, by Departments, as included in the Public Accounts, are given as Appendices 3 and 5, respectively.

5. The report contains explanatory notes in paragraphs 22 to 29 regarding some of the major changes between the 1959-60 and 1958-59 expenditures, by appropriation headings. There is also submitted a Summary of Expenditure by Standard Objects (Appendix 4) comparing the 1959-60 expenditures with those of 1958-59, by the headings used in the Details of the Estimates.

The Audit Approach

6. My examinations were conducted on a test basis during the year in accordance with past practice, the extent of the tests varying according to the nature of the transactions and the effectiveness of the internal control. The tests were supplemented by a general review of the accounting procedures in the departments and other agencies under examination—which comprised all departments, Crown corporations and other instrumentalities of the Government of Canada, excepting those listed in paragraph 113, whose accounts were examined by other auditors.

During the course of our examinations, members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown corporations and other agencies. In addition, they were provided with all supplementary information and explanations required during the course of their work. I should like to express my appreciation for the cooperation so readily extended by departmental and Treasury officers and by the administrative and accounting officers of Crown corporations and other agencies. Their cooperation greatly facilitated the audit work.

7. The Audit Office is developing what may be termed the comprehensive audit approach. This involves little change in the basic auditing program followed heretofore. Broadly speaking, it continues to require that in undertaking an examination of the financial affairs of a department, Crown corporation or other agency, the auditor must make a complete study of the governing legislation and obtain an understanding of the agency's basic function. In addition, he must study the organization with which its management is carrying out that function and understand the policies under which it operates.

As a result of his detailed knowledge of the operations of the agency obtained during the course of his audit, the auditor is in a position to work constructively with its

management in evaluating the effectiveness of its internal control procedures, and in improving the cost controls. This aspect of the work is being extended as circumstances permit.

8. In approaching its work in this manner, the Audit Office is fulfilling an important function by helping its clients to improve and develop their efficiency through the medium of effective periodic accounting statements and financial reports, the basic tools necessary to control costs.

Government departments and other agencies by their very nature do not possess the profit incentive to control costs such as exists in private enterprise. They must accordingly develop their own efficiency yardsticks in administering public funds, not only to ensure that expenditure is adequately controlled but that "built-in costs", which can so often escape the notice of the best intentioned managements, come under constant scrutiny and revision.

9. Detailed reports addressed to the managements of departments, Crown corporations and other agencies are currently being issued by the Audit Office covering the results of its examinations. These reports, patterned after those in widespread use among professional accountants in private practice, outline the scope of the audit, give a broad summary of the operations for the year under review, analyse the financial results in comparison with those of previous years and make available to the management comments and suggestions regarding weaknesses in internal control, savings that might be achieved and other matters noted during the course of the audit.

The Public Accounts

10. Pursuant to Section 63 of the Financial Administration Act, the Minister of Finance is responsible for the manner in which the accounts of Canada are maintained, and Section 64 requires that an annual report, called the Public Accounts, be laid by him before the House of Commons.

The Public Accounts constitute, in effect, Canada's Annual Financial Report to its shareholders, the general public. As such, it should conform to the highest standards of financial reporting in the country and be presented in a clear and concise manner without being encumbered with unnecessary detail. Only in this way can Parliament and the public be expected to give the accounting the attention it deserves.

Progress has been made during the past several years and again this year towards achieving this objective which is a matter of continuing study by the Department of Finance. However, much still remains to be done. For example, the listings of suppliers and contractors receiving \$10,000 and over through each department might be eliminated from the Public Accounts in favour of simply providing the information on specific request. On the other hand, additional information might be given in some areas, for example, comprehensive audited financial statements could be included for certain departmental operating activities as suggested in paragraph 148 of this report.

Cost of Operations

11. The accounting that the Public Service makes with respect to Canada's financial affairs today is based on a long tradition of scrupulous care and honesty of purpose. It is second to none among the public services of the world in the way it seeks to safeguard and account for the funds entrusted to it by Parliament. Its performance is not to be condemned simply because instances of waste or lack of judgment in specific transactions require disclosure under our parliamentary system. Such instances can be found in varying degree in the best managed commercial operations.

Accounting in government as it has developed over the years is a natural outcome of the parliamentary system. It has been designed basically to ensure that expenditures are made in accordance with parliamentary authority. This is the essential function. Of considerable importance, however, is the necessity for the accounting to provide complete and accurate costs of the individual activities or operations and the development of reliable yardsticks against which their efficiency can be measured. Only in this way can value for money spent be reasonably assured.

12. It is a recognized fact that the cost of operations of a private business, including the cost of its administration as well as the manufacture of its product, must be kept under constant examination if management is to control the operations effectively and economically. Only by having accurate figures with which to measure costs can the operations be examined in depth on an informed and constructive basis. There would seem to be an even greater need in the case of government activities for such detailed examination because the funds employed are public funds entrusted to the Government by the citizens of the country.

13. However, under existing governmental practice, the appropriations for each department provide only for the cash estimated to be required during the fiscal year to discharge the direct costs of the department. They do not ordinarily provide for charges for office or other premises occupied because these costs, including rentals paid, are usually recorded as budgetary expenditures of a single department, namely, the Department of Public Works. The office furniture and fixtures required by the various departments are similarly recorded. Likewise, departmental mail is generally carried without charge to departments, with the cost absorbed by the Post Office; and telephone charges in Ottawa, except long distance charges, are borne by an appropriation for the Department of Finance. In general, where occasional services are performed by one department for another, no inter-departmental billings are issued. Generally, also, where departmental labour is used in construction work, the cost is not charged to the appropriation for the capital cost of the work. In all these circumstances, although the expenditure total may be correct for the departmental services as a whole, expenditures are thus erroneously stated for individual departments and appropriations.

I believe that early consideration should be given to remedying these accounting anomalies and inconsistencies in order that the accounts relating to parliamentary appropriations may more accurately record the expenditures incurred for the various services.

14. It is universally recognized in all large business and financial operations that accurate internal periodic accounting statements, tailored to meet the particular requirements of the activity, are essential for effective management control of the costs of operations.

If the practices to which I have referred were changed, periodic accounting statements prepared for management purposes by departmental administrative officers would obviously give a more accurate picture of the operations. As a consequence, they would become more effective instruments in the hands of departmental managements in the control of their expenditures.

Form of the Estimates

15. The form of the annual Estimates, a responsibility of the Treasury Board, is important from the accounting point of view because it determines in large measure the manner in which the subsequent accounting for expenditures is maintained and reported in the Public Accounts. This in turn is important to the Auditor General because of his responsibilities to Parliament.

16. Informed consideration of the Estimates by the House of Commons before the money is voted is all-important. For this reason, consideration should be given to the form of the Estimates presentation with a view to providing more meaningful information, for example, by:

- (a) comparing the amounts estimated for the ensuing year directly with the anticipated actual expenditure for the current year, as well as with the amounts that had been estimated for the current year;
- (b) giving the estimated amounts in three columns: estimated expenditure (gross); estimated revenue; and net requirements to be voted (thus giving Parliament an opportunity to consider the sufficiency of receipts for services rendered, in relation to the costs incurred);
- (c) including both operating and capital budgets of Crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving Parliament an opportunity to consider broad policies associated with their operations); and
- (d) including appropriate explanations in all cases where expenditures proposed for the year involve commitments for future years.

Summary of Expenditure and Revenue

17. The Statement of Expenditure and Revenue for the year ended March 31, 1960, prepared by the Department of Finance for inclusion in the Public Accounts, is given as Appendix 1 to this report. It shows expenditure totalling \$5.703 million and revenue

amounting to \$5,290 million. The deficit for the year was, therefore, \$413 million compared with \$609 million in the preceding fiscal year and \$38 million in 1957-58.

18. The actual results for the year ended March 31, 1960 compare with the estimated expenditure, revenue and deficit, respectively, as forecast by the Minister of Finance in his Budget Speech on April 9, 1959, as follows:

	<u>Estimated</u>	<u>Actual</u>
Expenditure	\$ 5,660 million	\$ 5,703 million
Revenue	5,267 million	5,290 million
Deficit	<u>\$ 393 million</u>	<u>\$ 413 million</u>

Expenditure

19. The Summary of Appropriations, Expenditure and Unexpended Balances, by Departments for the year ended March 31, 1960, prepared for inclusion in the Public Accounts and given as Appendix 3 to this report, shows appropriations amounting to \$6,046 million, expenditures totalling \$5,703 million and unexpended balances of \$343 million.

20. Of the \$6,046 million of appropriations, \$2,296 million represented statutory appropriations. \$3,720 million was for appropriations granted under Appropriation Acts (Nos. 2, 4 and 5 of 1959, and Nos. 1 and 3 of 1960), and \$30 million was provided by continuing 1958-59 appropriations (Votes 709, 734 and 741).

The expenditure of \$5,703 million comprised, in addition to the \$2,296 million spent under statutory appropriations, amounts totalling \$3,407 million charged to the annual appropriations.

The unexpended balances of \$343 million lapsed at the end of the year in compliance with Section 35 of the Financial Administration Act with the exception of the unspent balances of \$14,625,000 and \$490,000, respectively, in Votes 615 and 648. These balances remained available for expenditure in 1960-61 because of the special wording in the appropriations, both of which were for continuing projects:

Vote 615: Payments to provinces and in respect of Indian Bands under the Municipal Winter Works Incentive Program during the 1959-60 and 1960-61 fiscal years of amounts not exceeding one-half of the cost of labour incurred in the period from the 1st day of December, 1959, to the 30th day of April, 1960, in accordance with terms and conditions approved by the Governor in Council\$15,000,000

Vote 648: Expenses in connection with Canada's participation in the World Refugee Year and, notwithstanding section 35 of the Financial Administration Act, to authorize payments to be made pursuant to this vote up to the 1st day of April, 1961; there shall be charged to this vote and included in the unexpended balance of Vote 55 of the Main Estimates, 1959-60, an amount equal to the amount spent and charged to that vote in connection with the World Refugee Year\$ 600,000

21. The following table summarizes the expenditure, by departments, for the fiscal year 1959-60, in comparison with the corresponding amounts for the two previous years:

Department	1957-58	1958-59	1959-60
Agriculture	\$ 94,661,000	\$ 165,842,000	\$ 181,390,000
Canadian Broadcasting Corporation	42,974,000	62,018,000	63,946,000
Citizenship and Immigration	51,805,000	52,844,000	54,917,000
External Affairs	60,209,000	75,486,000	96,895,000
Finance	1,187,362,000	1,228,205,000	1,420,155,000
Labour	81,695,000	86,756,000	102,885,000
Mines and Technical Surveys	36,135,000	43,789,000	54,432,000
National Defence	1,668,439,000	1,424,741,000	1,514,904,000
National Health and Welfare	662,730,000	872,917,000	818,371,000
National Revenue	67,709,000	68,788,000	68,696,000
Northern Affairs and National Resources ..	49,095,000	65,177,000	81,112,000
Post Office	153,320,000	157,803,000	165,792,000
Public Works	209,258,000	226,061,000	217,876,000
Royal Canadian Mounted Police	47,356,000	51,735,000	52,444,000
Trade and Commerce	56,939,000	65,636,000	67,443,000
Transport	206,734,000	288,838,000	296,447,000
Veterans Affairs	277,242,000	288,784,000	288,305,000
Other departments	133,748,000	138,620,000	156,851,000
	<u>\$ 5,087,411,000</u>	<u>\$ 5,364,040,000</u>	<u>\$ 5,702,861,000</u>

The amounts shown for the Department of National Health and Welfare do not include outlays under the Old Age Security Act, which were charged to the Old Age Security Fund (see paragraph 28).

In those cases where departmental expenditure totals for 1959-60 varied from those for 1958-59 by more than 5%, comments are made in the following paragraphs regarding the variations in individual appropriations or groups of appropriations which mainly accounted for the changes in the departmental totals.

22. *Agriculture.* The increase of \$16 million (9%) in expenditure by this department in 1959-60 compared with 1958-59 was due to payments of \$5 million in contributions to Western provinces for unharvested crops, and to increases of \$4 million (30%) in expenditures for rehabilitation and reclamation projects, and \$4 million (19%) in payments of freight assistance on Western feed grains. There was no outlay for acreage payments to Western grain producers in 1959-60 corresponding to the \$41 million of such payments in 1958-59, but this saving was more than offset by an increase of \$43 million in the amount appropriated towards the net operating loss in the Agricultural Commodities Stabilization Account.

23. *External Affairs.* The \$21 million (28%) increase in expenditure by this department resulted from increases of \$15 million (43%) in grants to the Colombo Plan Fund and \$6 million (54%) in contributions to international organizations. The latter increase was due mainly to the donation of dry skimmed milk and canned pork with a value of approximately \$4 million to international relief agencies during 1959-60.

24. *Finance.* Expenditures by this department rose by nearly \$192 million (16%) in the year under review. Public debt charges increased by \$135 million (21%) and

subsidies and tax-sharing payments to the provinces were up \$52 million (11%) over the preceding year.

25. *Labour.* The increase of \$16 million (19%) in expenditure by this department was mainly accounted for by increases of \$9 million (23%) in the government's contribution to the Unemployment Insurance Fund and of \$7 million in payments to the provinces in respect of winter works projects. The winter works program became operative only towards the close of the preceding fiscal year and the 1959-60 accounts were therefore the first to reflect charges for a full fiscal year.

26. *Mines and Technical Surveys.* The increase of \$11 million (23%) in expenditure by this department was mainly due to increases of \$6 million (68%) in payments by the Dominion Coal Board in respect of the movement of coal and \$3 million (34%) in payments under the Emergency Gold Mining Assistance Act.

27. *National Defence.* The expenditure figure for this department in 1959-60, when compared with the corresponding amount for the preceding year, indicates an increase of \$90 million or 6%. However, when \$212 million of outlays charged to the National Defence Equipment Account in 1958-59 are taken into consideration, there was, in fact, an overall decrease in expenditure of \$122 million or 7%. This decrease is partly accounted for by reductions of \$35 million (47%) in expenditure for Defence Research and Development and \$32 million (4%) in that for the Air Service. There was also a decrease of \$30 million (43%) in Mutual Aid expenditure, taking into consideration a change in the method of accounting, whereby the costs of equipment transferred from Service holdings and of aircrew training were borne by the Service appropriations instead of being charged against the Mutual Aid appropriation, as previously.

28. *National Health and Welfare.* The decrease of \$55 million (6%) in expenditure by this department mainly resulted from there being no charge in 1959-60 corresponding to that of \$184 million for the repayment of temporary loans to cover the deficiency in the Old Age Security Fund in 1958-59, with this saving being partially offset by increases of \$96 million (175%) in the government's contributions under the Hospital Insurance and Diagnostic Services Act, \$16 million (3%) in family allowances and \$16 million (68%) in unemployment assistance.

The absence of any expenditure charge in 1959-60 to cover the deficiency in the Old Age Security Fund was the result of the decision to carry forward to 1960-61 the 1959-60 temporary loan of \$28 million (representing the deficiency for that year) rather than to charge the amount as a budgetary expenditure, as in 1958-59. The following is a summary of the transactions in the Old Age Security Fund during the year ended March 31, 1960, in comparison with the two previous fiscal years:

	1957-58	1958-59	1959-60
Outlays charged	\$ 473,859,000	\$ 559,280,000	\$ 574,887,000
Collections credited	371,457,000	375,301,000	546,886,000
Deficiency	\$ 102,402,000	\$ 183,979,000	\$ 28,001,000

The considerable increase in payments of contributions towards programs of hospital insurance and diagnostic services administered by the provinces was due to 1959-60 being the first fiscal year in which any province participated for a full year.

29. *Northern Affairs and National Resources.* The \$16 million (24%) increase in expenditure by this department in 1959-60 compared with the preceding year was largely accounted for by an increase of \$12 million (45%) in expenditure by the Northern Administration and Lands Branch and of \$3 million (14%) in expenditure by the National Parks Branch. Of the \$12 million increase in expenditure by the Northern Administration and Lands Branch, the most significant increase was that of \$7 million in contributions to the provinces to assist in the development of the "roads to resources" program.

30. A Summary of Expenditure, by Standard Objects (i.e., according to the expenditure classification used in the Details of the Estimates) for the year ended March 31, 1960, compared with the corresponding amounts for the preceding fiscal year, is given as Appendix 4 to this report. Details of the expenditures, by standard objects and by departments, for the year ended March 31, 1960, are given in a statement in the Public Accounts, Part II, pages 4 to 9.

Revenue

31. The revenue for the fiscal year 1959-60 totalled \$5,290 million (Appendix 1), an increase of \$535 million over the preceding year. The following table summarizes the revenue, by principal sources, in comparison with the corresponding amounts for the two previous years:

	1957-58	1958-59	1959-60
Tax Revenues:			
Personal income tax	\$ 1,499,788,000	\$ 1,353,500,000	\$ 1,566,644,000
Corporation income tax	1,234,807,000	1,020,550,000	1,142,880,000
Income tax on dividends, interest, etc., going abroad	64,334,000	61,213,000	73,353,000
Sales tax	703,170,000	694,491,000	732,658,000
Other excise taxes	249,421,000	240,624,000	286,568,000
Customs duties	498,069,000	486,509,000	525,722,000
Excise duties	300,133,000	316,744,000	335,207,000
Estate tax	71,608,000	72,535,000	88,431,000
Other tax revenues	1,498,000	1,213,000	877,000
Non-tax Revenues:			
Return on investments	169,424,000	221,204,000	239,654,000
Net postal revenue	152,860,000	157,541,000	167,562,000
Other non-tax revenues	103,676,000	128,599,000	130,195,000
	<u>\$ 5,048,788,000</u>	<u>\$ 4,754,723,000</u>	<u>\$ 5,289,751,000</u>

32. The amounts shown for income taxes and sales tax do not include collections of tax levied under the Old Age Security Act on personal and corporation incomes and on

sales. This tax was increased from 2% to 3% effective January 1, 1959 on corporation income, July 1, 1959 on personal income and April 10, 1959 on sales. The collections were credited to the Old Age Security Fund as follows:

<u>Old Age Security Tax</u>	<u>1957-58</u>	<u>1958-59</u>	<u>1959-60</u>
On sales	\$ 175,792,000	\$ 173,623,000	\$ 270,000,000
On personal incomes	135,001,000	146,350,000	185,550,000
On corporation incomes	60,664,000	55,328,000	91,336,000
	<u>\$ 371,457,000</u>	<u>\$ 375,301,000</u>	<u>\$ 546,886,000</u>

The outlays charged to the Fund during the three-year period, together with the collections credited and the resultant deficiencies, are referred to in paragraph 28.

33. The following is a summary of the excise taxes, other than sales tax, collected during the year ended March 31, 1960, in comparison with the corresponding amounts for the two previous years:

<u>Excise Tax</u>	<u>1957-58</u>	<u>1958-59</u>	<u>1959-60</u>
Cigarettes	\$ 121,493,000	\$ 127,148,000	\$ 163,608,000
Automobiles	72,331,000	59,308,000	64,281,000
Manufactured tobacco	18,368,000	18,175,000	19,292,000
Television sets and tubes	10,005,000	10,241,000	9,387,000
Phonographs, radios and tubes	6,855,000	7,557,000	8,372,000
Toilet articles and preparations	6,269,000	6,824,000	7,651,000
Jewellery, clocks, watches, chinaware, etc.	5,353,000	5,599,000	5,609,000
Wines	2,744,000	3,140,000	3,027,000
Cigars	2,556,000	2,673,000	2,603,000
Sundry excise taxes	4,172,000	2,530,000	3,099,000
Refunds and drawbacks	-725,000	-2,571,000	-361,000
	<u>\$ 249,421,000</u>	<u>\$ 240,624,000</u>	<u>\$ 286,568,000</u>

The increase of \$36 million (29%) in revenue from the tax on cigarettes in 1959-60 compared with the preceding year was mainly due to the increase in the tax rate of two cents per package of 20 cigarettes which came into effect on April 10, 1959.

34. A listing of the excise duties collected during the year ended March 31, 1960 with comparable figures for the two previous years is given in the following table:

<u>Excise Duty</u>	<u>1957-58</u>	<u>1958-59</u>	<u>1959-60</u>
Cigarettes	\$ 123,301,000	\$ 132,547,000	\$ 136,931,000
Spirits	83,653,000	96,551,000	102,354,000
Beer	88,226,000	83,058,000	90,704,000
Other excise duties	8,417,000	8,688,000	9,279,000
Refunds and drawbacks	-3,464,000	-4,100,000	-4,061,000
	<u>\$ 300,133,000</u>	<u>\$ 316,744,000</u>	<u>\$ 335,207,000</u>

The increase in revenue from duties on spirits in 1959-60 was due mainly to an increase in the duty rate of one dollar per proof gallon effective April 10, 1959.

35. The following is a summary of the return on investments for the fiscal year 1959-60 with comparable figures for the two previous years:

<u>Investment</u>	<u>1957-58</u>	<u>1958-59</u>	<u>1959-60</u>
Bank of Canada	\$ 68,711,000	\$ 88,632,000	\$ 74,012,000
Central Mortgage and Housing Corporation	18,221,000	28,961,000	43,804,000
Loans to national governments	10,122,000	31,947,000	31,104,000
Exchange Fund Account	22,880,000	18,626,000	25,513,000
Canadian National Railways	12,454,000	11,451,000	11,073,000
Deposits with chartered banks	5,253,000	4,941,000	10,493,000
The St. Lawrence Seaway Authority			5,000,000
Veterans' Land Act loans	4,941,000	5,007,000	4,952,000
Eldorado Mining and Refining Limited	3,525,000	3,525,000	4,230,000
Northern Ontario Pipe Line Crown Corporation .	569,000	3,078,000	4,074,000
Polymer Corporation Limited	4,000,000	4,000,000	4,000,000
Securities Investment Account	1,424,000	2,613,000	3,546,000
National Harbours Board	3,402,000	3,187,000	3,321,000
Farm Credit Corporation	1,637,000	1,956,000	2,815,000
Other loans and investments	12,285,000	13,280,000	11,717,000
	<u>\$ 169,424,000</u>	<u>\$ 221,204,000</u>	<u>\$ 239,654,000</u>

36. The \$239,654,000 return on investments for 1959-60 represented an increase of \$18 million (8%) over the preceding fiscal year. The amounts shown as earned on the investment in the Bank of Canada represent the annual profits earned by the Bank and surrendered to the Receiver General under the Bank of Canada Act. The Central Mortgage and Housing Corporation amounts comprise mainly interest on loans, but also include the Corporation's annual profits (\$4,348,000 in 1959-60). Interest earned on deposits with the chartered banks was more than double that earned in the preceding year, due mainly to the higher interest rates prevailing on Treasury Bills upon which the bank interest rate is based. The \$5 million shown for The St. Lawrence Seaway Authority in 1959-60 represents the first interest payment received on loans made to the Authority under the St. Lawrence Seaway Authority Act.

37. The net postal revenue amounts listed in the table in paragraph 31 represent gross postal revenues less disbursements for (a) remuneration of postmasters and staffs at sub-offices, semi-staff offices and revenue post offices, and (b) certain miscellaneous expenditures for the past three years, as follows:

	<u>1957-58</u>	<u>1958-59</u>	<u>1959-60</u>
Gross postal revenue	\$ 177,433,000	\$ 183,291,000	\$ 193,593,000
Disbursements—			
Remuneration of postmasters and staffs	21,317,000	21,781,000	22,053,000
Miscellaneous expenditures	3,256,000	3,969,000	3,978,000
	<u>24,573,000</u>	<u>25,750,000</u>	<u>26,031,000</u>
Net postal revenue	<u>\$ 152,860,000</u>	<u>\$ 157,541,000</u>	<u>\$ 167,562,000</u>

38. An analysis of the amounts shown for other non-tax revenues for the year ended March 31, 1960 with comparable figures for the two previous years is given in the following table:

	1957-58	1958-59	1959-60
Privileges, licenses and permits	\$ 19,307,000	\$ 27,883,000	\$ 24,970,000
Proceeds from sales	22,321,000	23,521,000	21,892,000
Services and service fees	22,556,000	27,195,000	31,299,000
Refunds of previous years' expenditure	28,083,000	37,663,000	40,630,000
Miscellaneous	11,409,000	12,337,000	11,404,000
	<u>\$ 103,676,000</u>	<u>\$ 128,599,000</u>	<u>\$ 130,195,000</u>

39. The Summary of Revenue, by Departments, for the year ended March 31, 1960, as included in the Public Accounts, is given as Appendix 5 to this report.

Comments on Expenditure and Revenue Transactions

40. Reference has already been made in this report to the statutory responsibilities of the Auditor General under the Financial Administration Act and in particular to Section 70 under which he is required to call attention to specific transactions observed during his examinations.

Pursuant to this direction, I consider that the following cases relating to the expenditure and revenue transactions examined during the year under review should now be brought to the attention of the House of Commons.

41. *Prairie Farm Emergency Fund deficit.* Reference has been made in previous reports to the practice of charging annual deficits in the operations of the Prairie Farm Emergency Fund to Expenditure, although no provision for this had been made in the governing Act and no parliamentary appropriations had been provided to cover the charges.

The deficit of \$12,529,000 which resulted from the Fund's operations in 1959-60 was again charged to Expenditure notwithstanding this lack of specific parliamentary authority.

42. *Recovery of subsidies for cold storage warehouses.* The Cold Storage Act, c. 52, R.S., authorizes the Governor in Council to grant subsidies, out of any money appropriated by Parliament for the purpose, towards the construction and equipment of public cold storage warehouses, and to make regulations to ensure the efficient operation and enforcement of the Act. The Act does not make provision for recovery of all or any part of a subsidy in the event of the subsequent sale of subsidized facilities for other purposes. But the form of contract prescribed by the regulations to be entered into with persons seeking a subsidy provides that the subsidy is to be repaid if the facilities are sold without the approval of the Minister—and that if they are disposed of with such approval “the contractor will comply with such terms and conditions as may be imposed by the Minister”.

During the year under review, an instance was observed where \$8,007 of a payment of \$14,807 made in 1946 was required to be repaid on the sale of the subsidized premises, the difference of \$6,800 being regarded by the department as an appropriate allowance for depreciation.

In this connection we have obtained an opinion from the Department of Justice that the regulations permit the Minister to approve of the sale of a subsidized cold storage warehouse without requiring, as a term or condition thereof, repayment of any part of the subsidy. In view of this, we are of the opinion that the regulations should be amended to ensure maximum recovery of subsidy in each case.

43. *Contracts for charter hire of helicopters.* Aircraft charter hire rates charged by commercial aviation companies are governed by tariffs filed with the Air Transport Board. During the course of our examination we observed that, with respect to certain contracts awarded by the Department of Defence Production covering the charter hire of helicopters for the Department of National Defence, the filed tariffs and provisions of related contracts were susceptible to more than one interpretation. Several cases were noted where charges had been accepted which did not appear to be in accordance with the terms of the governing contracts, and on our drawing these apparent overpayments to departmental attention refunds of \$1,400 and \$800 were obtained in two instances.

The Department of Defence Production has since taken steps to arrange for contracts of this nature to be drawn in more precise terms in order to avoid similar misunderstandings in the future.

44. *Delay in accounting for counterpart funds.* Up to March 31, 1960, approximately \$80 million of the funds appropriated by Parliament for the Colombo Plan had been spent for the purchase of wheat, flour, copper, aluminum, nickel, fertilizers and wood pulp supplied to India, Pakistan, Ceylon, Nepal, Indonesia and Burma. By agreement with the recipient countries, when goods that are not directly related to economic development are financed by grants from the Government of Canada under the Colombo Plan and sold or otherwise distributed by the governments concerned, "counterpart funds" are to be set aside for subsequent use in connection with agreed economic development projects in their countries. These funds are to be paid into special local currency accounts, and the government of a recipient country is to report from time to time to the Government of Canada the position of its counterpart fund account and supply a covering certificate from its Auditor General.

Gifts of wheat and flour costing \$35 million are covered by similar agreements.

As at July 31, 1960, certified statements of counterpart funds had been received by the Department of External Affairs in respect of \$15 million worth of wheat shipped to India in 1952 and 1953, \$10 million worth of wheat shipped to Pakistan in 1953, and \$4 million worth of flour shipped to Ceylon from 1954 to the end of March 1958. However, no such statements had yet been received for counterpart funds in respect of commodities on which the Canadian expenditures were as follows:

	1954-55 to 1957-58	1958-59	1959-60
India	\$ 11,754,342	\$ 18,283,310	\$ 31,146,307
Pakistan	6,334,751	6,065,031	6,560,567
Ceylon		2,999,893	1,399,965
Nepal		60,000	
Indonesia			499,939
Burma			499,933

45. *Expenditure charges to adjust insurance account balances.* The following insurance plans were established many years ago: Civil Service Insurance Fund, actuarially calculated at 6% interest; Returned Soldiers' Insurance Fund at 4% interest; and Veterans' Insurance Fund at 3½% interest. Notwithstanding the fact that interest credits were discontinued on the first of these accounts as at March 31, 1954, and on the other two as at March 31, 1952, the operations of the accounts reflected actuarial surpluses at March 31, 1956, as follows: Civil Service Insurance Fund, \$8,267,453; Returned Soldiers' Insurance Fund, \$4,301,701; and Veterans' Insurance Fund, \$2,643,070. These surpluses, which totalled \$15,212,224, were credited to Net Debt Account in the fiscal year 1956-57, in order to adjust the balances in the accounts to the amounts of the respective actuarial liabilities at March 31, 1956.

No interest has been credited to the accounts since these adjustments were made and actuarial deficits have arisen. These have been made good by means of annual non-cash charges to Expenditure, the 1959-60 charges with respect to the several funds being: Civil Service Insurance Fund, \$589,000; Returned Soldiers' Insurance Fund, \$520,000; and Veterans' Insurance Fund, \$328,000. The charges were reported as special "statutory" items in the Public Accounts (pages N-2 and AI-3).

We would point out that in no case does the governing legislation contain provision for the making of such charges.

46. *Proceeds of fines not accounted for.* Subsection (2) of Section 626 of the Criminal Code provides that "where a fine... is imposed in respect of any proceedings instituted at the instance of the Government of Canada, in which that government bears the costs of prosecution, the proceeds of the fine... belong to Her Majesty in right of Canada and shall be paid by the person who receives them to the Receiver General of Canada".

Records of the Department of Fisheries indicate that a former magistrate failed to remit fines totalling approximately \$2,400 imposed and collected by him during the years 1956 to 1958 for offences under the Fisheries Act and regulations made thereunder.

It was observed that fines imposed and collected by the same magistrate in the period from 1953 to 1955 were recovered after the filing of information in the Exchequer Court, but no such action has been taken with regard to those imposed and collected during the later period.

47. *Questionable charge for stockpiling of coal.* For many years parliamentary appropriations have been provided annually to the Department of Mines and Technical Surveys (Dominion Coal Board) for "payments in connection with movements of coal under conditions prescribed by the Governor in Council". Assistance on the movement of water-borne coal from Nova Scotia to St. Lawrence River ports has been based on the excess of the laid-down cost of Canadian coal over that of imported coal. Although normal stockpiling costs prior to shipment have been regarded as a permissible cost element, the appropriation for 1959-60 (Vote 212) was charged with payments totalling \$631,000 to reimburse collieries for the cost of extra stockpiling at the collieries in excess of current demand (an amount of \$100,000 recovered from the Province of Nova Scotia by previous arrangement was included in the revenues of the department).

In our opinion, these payments are questionable charges to an appropriation that provides specifically for "movements of coal".

48. *Construction costs of house at R.C.A.F. Station.* Early in 1958 Treasury Board approval was obtained for the construction of a house for the use of a senior R.C.A.F. officer at a cost of \$25,000, plus \$9,950 for utilities and landscaping. The project was completed during the year under review, and an analysis by the department's Chief Auditor of the cost records maintained by the R.C.A.F. Construction and Maintenance Unit indicated that costs totalling \$79,631 had been incurred—\$56,716 for the house and \$22,915 for the utilities and landscaping.

When the matter was referred by a departmental administrative officer to the Air Force for investigation, it was found that there had been misunderstanding on the part of its Construction and Maintenance Unit in that it had assumed that the approved funds covered only the cash requirements for the project without restricting "contributions" by way of Service labour and materials from stocks on hand. The cash outlays were within the approved amounts and it was the "contributed" costs that had resulted in the project exceeding the authorized limit. Moreover, the Air Force, pointing out that the house had been built in accordance with agreed plans and specifications, maintained that there were inaccuracies in the records and that certain costs totalling

\$33,450, such as transportation to and from the site, rental value of Service equipment and a large portion of Service labour for engineering and supervision, should not have been charged to the project.

Unless costs include indirect as well as direct elements, they can be seriously misleading. Realizing this, the department has issued instructions that in future estimated costs prepared with respect to all project requests must include the cost of all material whether purchased directly or supplied from stocks, and of all labour whether employed directly for the job or provided by departmental Service or civilian staffs—together with appropriate charges for overhead.

49. *Non-recovery of expenses incurred in lending Crown-owned property.* In the summer of 1959 a number of NATO vessels were invited to participate in a Naval show at the Canadian National Exhibition, Toronto. In order to transport personnel between the vessels and the shore, six landing barges were borrowed by the Department of National Defence from the Department of Transport, and a general understanding was reached with the Exhibition Association that any costs incurred in connection with these barges would be borne by the Association, although no formal agreement was concluded to this effect.

The cost of transporting the craft, together with certain conditioning expenses, was billed to and recovered from the Association by the Department of National Defence. However, it later developed that other expenses totalling \$4,925 incurred by the department had been inadvertently omitted from the billing. This was directed to the attention of the Association, but up to the time of the completion of our examination, recovery had not been effected nor had liability for the additional charges been admitted by the Association.

50. *Medical expenses incurred for accidental injuries suffered by a deserter.* During the course of our examination, we noted the case of a man who had joined the Navy in May 1956 and deserted two years later. In September 1959, while still absent without leave, he was seriously injured in an automobile accident. His hospital and medical expenses up to December 1959, when he was released from the Navy, cost the department \$3,500. In addition, as the man is entitled to post discharge treatment for one year at public expense, and as he is a quadriplegic, it is estimated that a further outlay of at least \$8,000 will be involved during that period. It was also noted that the man was released on medical grounds rather than on account of desertion and as a result was given a cash termination allowance of \$419.

The Navy carries deserters on strength indefinitely in order to impress on serving personnel the inviolability of their engagement in the Service. In this case, if the man had been in the Army or Air Force he would have been struck off strength automatically a year after his desertion and the Crown would have had no further financial responsibility for him.

As a result of our bringing this case to the attention of the Department of National Defence, the Navy's practice is now under consideration with a view to standardizing the practices of the three Services.

51. *Subsidization of medical student officers.* Undergraduate medical students may be enrolled as officers in the forces and receive subsidized education during their final years of study. A condition is that on completion of his course each officer will serve a three-year period in the Services. In exceptional and unforeseen circumstances the release of an officer at his own request may be authorized, but if the release takes place before he has completed three years' service after being licensed to practice, he is required to repay all or part of the cost of subsidization, including pay and allowances received.

A case is now commented upon for the reason that it will take some 15 years to recover such costs from a released officer, under an instalment payment arrangement. The officer, on finishing his course early in 1959, applied for his release for financial reasons to take up civilian medical practice and tendered a certified cheque for \$7,700 to cover the costs to the department of subsidizing his education. Owing to the shortage of medical officers the application was refused and the cheque returned to the officer. Nine months later when the officer again sought his release on the grounds that his financial position had worsened, the department granted the release. However, he was not then in a position to reimburse the amount owing, so the department accepted his promissory note for \$7,700, with interest at 5%, to be repaid at the rate of \$75 a month commencing in March 1964 and ending in April 1975.

On being released, this officer was paid, in cash, \$719 of deferred pay that had accumulated to his credit.

The pertinent regulations permit the Minister a discretion as to the amount to be refunded but are silent as to the method of collection.

52. *Unusual exercise of executive discretion in awarding of annuity under Canadian Forces Superannuation Act.* An officer, aged 38, was released in January 1960 on grounds of inefficiency following an unexplained shortage of funds at a Naval station of which he was the supply officer. A Service Pension Board Minute noted that he had been involved in a similar occurrence in 1957 and stated that "his general physical and mental condition indicated a lack of stability and general suitability which, in the opinion of the appropriate authorities, made him incapable of performing the duties of an officer of his rank and branch".

The release was effected under Section 49(h) of the Defence Services Pension Act, c. 63, R.S., which provided that a contributor who had served ten years or more and was retired for inefficiency should be paid one-half pension to age 65 and two-thirds thereafter. Pursuant to this section, the officer had been awarded an annual pension of \$1,438.

The Canadian Forces Superannuation Act came into force on March 1, 1960 with retroactive application to July 8, 1959. The new Act provides, with regard to releases for inefficiency, that in the discretion of Treasury Board on the recommendation of the Minister, a contributor may be paid the whole or any part of any pension he would have been entitled to if he had been retired to promote economy and efficiency—in other words, for normal cause. Accordingly, the case was reviewed by the department and it sought and obtained Treasury Board approval for an annual pension based on 95% of the permissible maximum, or \$2,732 during the lifetime of the officer.

In cases of voluntary retirement before reaching compulsory retirement age, an officer is normally granted a pension reduced by 5% for each year by which his age at retirement is less than the retirement age applicable to his rank. In the case referred to, the officer at the time of his release still had 11 years to serve in the Navy, so the establishment of the pension at 95% of the permissible maximum, in the circumstances mentioned, seems to constitute an unusual exercise of the discretionary authority given to the Treasury Board by the Act.

53. *Partial payment of mess officer's salary from public funds.* Early in 1957 a mess manager was appointed at an Air Force station at a monthly salary of \$400 payable from mess funds. While serving in this capacity the man was also nominally appointed on December 1, 1957 as a kitchen helper in the mess and paid \$175 per month from public funds as a locally engaged employee, the payment from mess funds being correspondingly reduced. He continued as mess manager on a full-time basis with his salary thus paid in part from public funds. This situation continued until December 31, 1959 and involved payments out of public funds to a total of \$4,375 during a period of 25 months in which no services were in fact performed in the position for which the payments were ostensibly made.

In October 1959 instructions were issued that the amounts paid from public funds since August 1958 were to be refunded. The nominal appointment as kitchen helper was terminated on December 31, 1959, and we have recently been informed that recovery is expected to be effected by means of monthly payments over a period of two years, commencing December 1960.

54. *Travel and removal expenses.* The Department of National Defence spent \$40 million during the year under review on travel and removal expenses of servicemen and their dependents. In the course of our test examinations of these payments, a number of cases involving unnecessary or excessive costs came to our attention, of which the following are examples:

1. Regulations provide that a serviceman whose period of service is about to expire shall not be transferred to another unit unless he is re-engaged for a further term. In November 1959 an airman was transferred, with his dependents, from Gimli, Manitoba, to Vancouver, although his term was to expire two months later and he was not being re-engaged. In January 1960 he took his release, and his transportation, along with his dependents, was paid to Halifax, his selected place of residence. Extra costs incurred by the transfer to Vancouver are estimated at \$1,000.

2. A serviceman with less than 10 years' service is entitled, on release, to transportation and travelling expenses for himself and his dependents to the place in Canada where he enrolled or to any other place in Canada, provided the cost is not greater. An officer serving at Halifax selected Ottawa as his intended place of residence and shipped his furniture and effects there at public expense. He was paid, however, for amounts claimed as travelling expenses of himself and his wife to Victoria where he had enrolled. Regulations have since been clarified to prohibit the payment of transportation to other than the intended place of residence.
3. When furniture and effects of Service personnel are moved by road van at public expense it sometimes happens that delivery cannot be completed immediately on arrival of the shipment at its destination, ordinarily because the serviceman has been unable to find suitable accommodation at the new location. In such cases the shipments may be placed in storage in transit for which the minimum charge is \$2.50 per hundredweight for periods of 30 days or less. Instances were observed where movers placed shipments in storage in transit for a day or so, for their own convenience, without first contacting the consignees who were frequently in a position to accept delivery. A number of refunds were obtained—in one case \$208—and the department has taken steps to curtail the unnecessary use of storage in transit facilities in future.
4. Two Naval officers serving at Ottawa were posted to R.C.A.F. Station Centralia, where quarters and rations were provided, for a period of six weeks. They returned to Ottawa frequently and during the period in question spent more time there than they did at Centralia. As a result, one officer received \$273 and the other \$266 in per diem allowances for days spent at their home city.
5. An officer who had been serving in Vancouver was posted to Victoria to attend a two months' course preparatory to serving on a ship then in the final stages of construction in Vancouver, where he had left his dependents. On completion of the course he returned to Vancouver and was continued in travel status to "stand by" the ship pending its commissioning. This did not take place for four months and the officer thus received \$974 in per diem travelling allowances during the period, although his home was in the city. We have recently been informed that recovery is being effected.

In accordance with our usual practice, all such cases were drawn to departmental attention promptly with the object of achieving recovery where possible as well as bringing about improvement in the regulations.

55. *Interim allowances for lodgings and meals on transfer.* When members of the forces with dependents are transferred from one place to another they are entitled, by regulation, to be reimbursed for expenditures incurred for lodgings and meals for periods required to find living accommodation and complete the moves. The maximum daily rates for lodgings and meals are based on costs at commercial establishments and vary according to the rank of the serviceman and the size of his family. Normally reimbursement is made for a period up to 21 days, but this may be extended in special circumstances. During the course of the audit a number of cases were observed where liberal application of the regulation seemed to confer benefits beyond what was intended:

1. While staying with relatives:

Cases were noted where substantial payments were made for accommodation provided by relatives. For example, an officer with two dependents was paid \$374 to cover the cost of his lodgings only, in the home of his parents for 34 days.

2. While awaiting possession of purchased accommodation:

Experience has shown that rented accommodation can usually be obtained within the normal interim allowance period of 21 days. However, instances were noted where servicemen were paid interim allowances for 35 days—in one case amounting to \$908—while awaiting possession of homes purchased at new duty locations.

3. While awaiting redecoration of home:

An officer during a tour of duty outside Canada rented his home and upon his return decided to repair and redecorate it. He was paid \$267 in interim allowances during a period of 19 days while he and his family occupied temporary accommodation.

When the first two classes of cases were drawn to the attention of the department, instructions were issued calling for greater care and discretion in future before such reimbursements were made. In the last case, the department considers that the officer was entitled to the allowance in question.

56. *Reimbursement to servicemen for lease termination payments.* The Department of National Defence is faced with a difficult administrative problem in dealing with servicemen who, having entered into leases for housing accommodation, are transferred to other localities or are ordered into departmental quarters prior to the expiration of the leases. In such cases, the department may, by regulation approved by the Governor in Council, reimburse the servicemen for the amounts paid to terminate their leases up to a maximum of three months' rent.

Lease termination payments approximate \$500,000 annually and the department's problem is to balance the cost to the public with the protection which should be afforded the servicemen. A serviceman is left free to make his own arrangements with his landlord in respect of both the term of the lease and the manner of its termination, and it appears that many landlords, being aware of the regulation, demand the maximum amount before agreeing to terminate the leases. No administrative responsibility is assumed for arranging sublets where the vacated premises are rented by landlords to other servicemen. In fact, some landlords anticipate this situation by incorporating in their leases a provision under which they may arbitrarily refuse to accept a subtenancy.

57. *Unemployment assistance contributions to provinces.* In the 1957-58 report, comments were made regarding certain doubtful expenditures which had been shared by the Federal Government under the Unemployment Assistance Act, and it was observed that "audit opinion is that the statute includes ambiguities which have resulted in varying interpretations, and that the text merits further consideration".

In the course of our initial audit of expenditure incurred under this Act in the Province of British Columbia, we noted that amounts claimed as shareable included allowances to provide for the maintenance of children living apart from their parents with

other families, usually relatives. These children were being assisted as individuals and not as part of a family unit entitled to receive unemployment assistance. The Department of National Health and Welfare concurred in our view that such payments were in respect of child welfare and not admissible as shareable expenditures under the Act. The department estimates that resultant overpayments to the province during the period from July 1, 1955, the date the agreement was entered into with the province, up to March 31, 1959, are of the order of \$360,000. Provincial authorities disagree with the stand taken by the department and with the method of calculating the amount in dispute. However, they agreed, without prejudice to their case, to overpayments totalling \$40,724 from April 1 to August 31, 1959, being withheld from 1959-60 payments, and since August 31, 1959 the province has discontinued claiming for the allowances in question.

A similar situation arose in connection with claims of the Province of Nova Scotia relating to children living apart from their parents. Although provincial officials have now agreed that payments by municipalities for the maintenance of children placed in homes by municipal authorities or children's aid societies are child welfare costs and therefore not shareable, they contend that assistance granted under Section 7(b) of the Provincial Social Assistance Act is shareable. This section provides that assistance may be granted to a person who has in his care or custody one or more children who are not being maintained by their parents, if he is a suitable person to have custody of children and meets the requirements of a means test. The Department of National Health and Welfare shares our doubts as to the propriety of admitting such assistance payments as shareable on the grounds that they also are in the nature of child welfare costs.

We also drew the attention of the department to inadmissible expenditure claimed for sharing by the Province of Alberta for pensions granted by the province to disabled persons, the province having overlooked the fact that, as many of the pensioners were inmates of hospitals and other institutions for the treatment of chronic conditions, assistance to them was not shareable under the Act. Provincial officials have agreed to re-examine all such pension payments with a view to excluding ineligible cases and establishing the amount of the overpayment (estimated at \$80,000 in respect of claims for the period from January 1958 to October 1959).

58. *Grants to hospitals, etc., which care for Indians and Eskimos.* In revising the 1959-60 vote structure for the Department of National Health and Welfare, the vote "Grants to Hospitals which care for Indians and Eskimos" was combined with the vote for "Indian and Northern Health Services—Operation and Maintenance", the new text being "Operation and Maintenance, including Grants to Hospitals and Other Institutions which care for Indians and Eskimos". The amount provided for these grants was shown as a separate item of \$220,000 in the Estimates' Details. During the year, grants paid to hospitals, individually authorized by Treasury Board, totalled \$255,000, the excess being provided for by a transfer from the materials and supplies allotment.

As it has been long established practice that Parliament control grants to outside organizations, and as the grants in question had previously been provided for by a separate appropriation, the increase of the amount made available for this purpose by the Treasury Board is drawn to attention as a matter of interest.

59. *Determination of "sale price" for sales tax purposes.* Section 30 of the Excise Tax Act requires sales tax to be calculated on the "sale price" of goods produced or imported into Canada, with certain stated exemptions. In the 1945-46 report it was noted that for some classes of goods sold under certain circumstances to other than wholesalers, the Department of National Revenue had authorized the manufacturers, by regulation, to compute the sales tax on less than the actual sale price.

In 1955 a Sales Tax Committee was appointed to review and advise upon certain technical questions relating to the administration of the sales tax. Included in the Committee's report, dated January 12, 1956, is the statement that "the Act does not appear to authorize the Minister to vary actual selling prices or to impute wholesale prices when they do not exist", and the Committee recommended that "the existing scheme of valuation be continued for the present with statutory sanction".

Sale price is the amount charged to the buyer and there is no provision for any deviation. The method of valuation employed by the Department of National Revenue for sales tax purposes appears to rely on the general authority given in Section 38 of the Act, reading as follows:

"The Minister of Finance or the Minister of National Revenue, as the case may be, may make such regulations as he deems necessary or advisable for carrying out the provisions of this Act."

In our opinion, specific authority by Parliament is required if the tax is to be computed on less than the actual sale price of the goods.

60. *Commitment to the Northwest Territories in advance of appropriate authority.* In November 1957 the Department of Northern Affairs and National Resources gave its concurrence to the Commissioner of the Northwest Territories entering into a contract with a firm of consulting engineers for the planning and construction supervision of a revised and extended water system and a sewage system at Fort Smith, N.W.T. This concurrence was given notwithstanding the fact that the project was one towards which the contribution of the Federal Government would be considerably greater than that of the Territorial Government. Fees under the contract were paid in full to the consulting engineers by the Territorial Government, and it was not until July 1959 that Executive authority was sought by the department for reimbursement of the Territorial Government for the department's share of the cost, as a charge to the appropriation for "Northwest Territories and Other Field Services—Construction or Acquisition of Buildings, Works, Land and Equipment" (Vote 279).

Because of the considerable responsibility of the Federal Government in the project, it would seem that the department's concurrence in the contract being entered into with the consultants should have been given only after the approval of the Treasury Board had been obtained.

61. *Extra costs resulting from seemingly insufficient consideration given before constructing boat harbour.* In June 1957, the Department of Public Works called for tenders for the construction of a boat harbour at Eriean, Ontario, intended mainly for the use of local fishermen. As a result of delays in acquiring land for the site, the contract had not been awarded by October 4, 1957, when a petition signed by a group of the fishermen was received by the department, requesting that the plans for the harbour be revised. Accordingly the department decided to defer the project.

On December 3, 1957, a second petition, signed by another group of fishermen, requested the department to proceed with the original contract. The firm that had submitted the lowest tender agreed to undertake the work at the tendered price of \$154,545 and the contract was awarded to it on January 30, 1958.

On April 14, 1958, a third petition renewed the request that the plans be changed and, on April 29th, the contract was cancelled. The plans were then revised and new tenders called and in due course a contract was entered into with another contractor for the construction of the harbour on the basis of the revised plans, at a cost of \$192,526.

Meanwhile, \$61,890 of expenditures had been incurred by the original contractor prior to the cancellation of the contract, and this sum was reimbursed to him in August 1959 and charged to the appropriation for "Ontario—Acquisition, Construction and Improvements of Harbour and River Works" (Vote 340). It was noted that \$43,417 of this amount represented materials later used on the revised project, leaving \$18,473 as the extra cost resulting from insufficient consideration having been given to alternative plans before proceeding with the project.

62. *Expenditure caused in advance of parliamentary sanction.* On November 29, 1958, a Treasury Board Minute authorized the Minister of Public Works to purchase a property in Vancouver, and directed that the expenditure be chargeable "against funds allocated for this purpose in the 1959-60 Estimates—'Post Office Station E, Vancouver, B.C.'". The Minute provided that interest would be payable at 5% of the purchase price of \$50,000 from the date of the conveyance until the date of final settlement. Title to the property was acquired on February 18, 1959. Interest for the period from that date until May 31, 1959 was included in the payment which was then made and charged against the appropriation for "Acquisition, Construction and Improvements of Public Buildings—British Columbia" (Vote 329).

The acquisition of the property in this way, in advance of the provision of funds for the purpose, lacked conformity with the restriction contained in Section 13 of the Public Works Act that "nothing in this Act authorizes the Minister to cause expenditure not previously sanctioned by Parliament, except for such repairs and alterations as the necessities of the public service demand". Moreover, as a result of the action taken, interest costs were incurred to the extent of \$699.

63. *Dredging operations for the benefit of a private interest.* In September 1959, a private company requested the Department of Public Works to carry out dredging operations over its marine railway slip adjacent to the public harbour at Liverpool, N.S. Although the request was refused initially, the department finally agreed to do the work and the cost, amounting to \$4,281, was charged to the appropriation for "Dredging—Maintenance and Operation of Plant and Contract and Day Labour Works" (Vote 347), instead of being recovered from the private company for whose benefit the dredging had been done.

64. *Questionable charge for construction of protection wall.* Among the 1959-60 appropriations for Harbours and Rivers Engineering Services under the Department of Public Works was Vote 345 which reads:

Remedial works where damages are caused by, or endanger, navigation or Federal Government structures; and the completion of protection works already under way.

Costs of \$9,245 were incurred during the year under a contract entered into, in the amount of \$20,264, for closing a gap in existing protection walls at Lac Megantic, P.Q. The existing works had been built by the government partly in 1936 and partly during the period from 1949 to 1956.

There appears to have been no question of any damage having been caused by or endangering navigation or Federal Government structures, the department relying on the words "completion of protection works already under way" as justification for undertaking the work. Our interpretation of the wording would restrict work to what is required to be done to complete a project which had been in progress at the end of the preceding fiscal year.

65. *Inadequate settlement re damages to wharf.* In June 1959, the government wharf at Sturdies Bay, B.C., was damaged by a tanker which struck it while making a landing. The cost of repairing the wharf was \$1,956.

When the Department of Public Works sought to recover the cost from the tanker's owners, they offered only \$1,174 in settlement, being 60% of the estimated original cost of the damaged portion of the wharf. This was on the grounds that the wharf had an estimated life of 15 years of which six had elapsed. The department accepted the settlement notwithstanding the fact that it is usual to recover the full cost of restoring damaged facilities, without taking depreciation into consideration.

66. *Adjustment of pension to ex-member of R.C.M.P.* Subsection (2) of Section 27 of the Royal Canadian Mounted Police Superannuation Act, c. 34, 1959, provides that:

"All claims for pension under this Part shall be dealt with and adjudicated upon in like manner as claims under the Pension Act, and all provisions of the Pension Act not inconsistent with this Part apply *mutatis mutandis* in respect of any claim under this Part."

Section 20 of the Pension Act requires that any amount collected in respect of damages be taken into account in fixing the amount of a disability pension.

A constable injured in an automobile accident received \$5,000 in settlement of a civil action and was subsequently granted a disability pension for life. A review of the file indicated that the settlement had not been taken into account in fixing the pension. On attention being drawn to the case, administrative officers advised that payments were being suspended pending adjustment of the pension.

67. *Charges for annual fee for membership in international organization.* Vote 380 for the Department of Trade and Commerce reads:

Departmental Administration, including fees for membership in the International
Organizations listed in the Details of the Estimates\$ 2,636,084.

Included in the Details was an item for "International Sugar Agreement Fee \$8,500". This was to provide for Canada's share of the expenses of the International Sugar Council for 1959. The share actually amounted to \$7,993 and was paid in April 1959, but the appropriation was charged with an additional payment of \$7,818 in March 1960 for Canada's share of the Council's expenses for 1960. This made a total of \$15,811 charged to the appropriation in the fiscal year 1959-60. Although the fees of the member countries become payable to the Council at the beginning of the calendar year for which they are assessed, Canada's practice, since 1954, had been to make payment only after April 1st, when funds became available for each fiscal year.

The desirability of Canada paying its annual fee when due cannot be denied, but in view of the fact that Parliament provided a specific amount of \$8,500 to cover the fee payment in 1959-60, we are of the opinion that no sum should have been paid in excess of that amount in the absence of a supplementary appropriation provided for the purpose.

68. *Contracts with Colombo Plan experts.* At March 31, 1960 there were 33 persons, including a number of civil servants on leave without pay from their regular positions, under contract with the Department of Trade and Commerce to act as technical experts in connection with Canada's Colombo Plan Technical Assistance Program. Fees payable under these contracts were based on the expectation that they would be subject to income tax, and a clause in each contract required the technical expert to repay a stated amount should the fees not be taxable under the laws of Canada.

In some cases where technical experts were classed as non-residents and therefore not taxable, failure by the department to amend taxation clauses in the agreements, when periods of service were extended, placed such persons in a position to bargain. In one instance where an agreement covered a period of service of 24 months and provided for a repayment of \$3,000 in the event that the fees proved not to be taxable, the period of service was extended twice before the repayment provision was amended. Then when the department wished to amend the agreement to provide for repayment of \$10,500, the expert refused to sign and the department finally agreed to an amount of \$4,900 plus two-thirds of any amount in excess of \$4,900 that the Taxation Division might refund to the expert. It is not yet known what the actual benefit to the expert may have been.

Obviously the system of including in the fee an amount which is to be refunded in the event that income tax is not payable is cumbersome and lends itself to abuse. If compensation is to be paid for income tax, it seems logical that reimbursement should be made only on production of the tax assessment notice and evidence of payment of tax.

69. *Repairs to landing craft without inviting tenders.* Early in June 1959 the Department of Transport arranged with a Montreal firm with ship repairing facilities to inspect a number of landing craft at Frobisher, damaged by ice during the preceding winter. After the firm had commenced repairs, with departmental concurrence, it was asked to tender for the work involved and quoted a price of \$245,415 which was accepted. The repair work was completed before Executive approval was sought on August 24, 1959 and granted on September 17, 1959 for entry into a contract covering the work.

This failure to obtain prior approval was contrary to Executive regulations governing contracts, but what is of particular concern is that tenders had not been invited by public advertisement for execution of the work, as required by Section 36 of the Public Works Act. It is understood that, in future, repair work of this sort will be given consideration by the department at an earlier stage in order that firms in a position to undertake the work might be invited to tender and a competitive situation thereby established.

70. *Financial consequences of faulty preliminary engineering.* In August 1957, the Department of Transport entered into a contract for development of an airport at Riviere-du-Loup. The lowest tender of \$479,965, based on firm unit prices for estimated quantities, was accepted. After the work had been commenced it was found that the runway, the construction of which formed a major part of the project, had to be angled away from the location that had been erroneously staked out under direction of a departmental engineer, and that had been inspected by prospective bidders following the tender call. The correction of the deviation placed part of the runway over a large and deep area of muskeg which had to be removed and replaced with suitable

materials, some of which had to be purchased and hauled to the airport. In addition, a hummock of solid bedrock was uncovered outside of graded areas and had to be removed to provide aircraft take-off clearance.

Negotiations with the contractor regarding the increased costs involved led to an amendment of the contract to permit settlement, on a cost plus fee basis, for \$725,000. Any advantage that might have been gained from competitive bidding on this project was therefore lost through faulty preliminary engineering work.

71. *Questionable charges for aids to navigation.* During the year under review, following the practice of previous years, approximately \$223,000 was charged to the appropriation for "Aids to Navigation" (Vote 402) for expenditures incurred by the Department of Transport for the construction or acquisition of buoys, range lights and piers to define the boundaries of the deeper water navigation sections of the Canadian portion of the St. Lawrence Seaway.

Section 10 of the St. Lawrence Seaway Authority Act, c. 242, R.S., reads in part: "The Authority is incorporated for the purposes of . . . acquiring lands for and constructing, maintaining and operating all such works as may be necessary to provide and maintain . . . a deep waterway between the Port of Montreal and Lake Erie . . ." The term "deep waterway" is defined by Section 2 as "adequate provision for navigation requiring a controlling channel depth of twenty-seven feet . . ." Section 16 provides that the costs to be defrayed by tolls include "the cost of operating and maintaining the canals and works under the administration of the Authority . . .".

A reasonable assumption from the foregoing statutory provisions would seem to be that the cost of aids to navigation throughout the length of the Seaway should be included among the costs to be recovered through tolls, instead of being paid from public funds. The question of the propriety of charging the appropriation for "Aids to Navigation" with the cost of buoys, range lights and piers, as mentioned above, was raised with the department and it has recently advised us that it has placed the question before the Treasury Board for decision.

72. *Awards under the Pension Act.* The determination of whether or not payments under the Pension Act, particularly those in respect of discretionary and compassionate awards, are in conformity with the Act presents special problems. Section 5 of the Act grants the Canadian Pension Commission full and unrestricted power and authority to deal with and adjudicate upon all matters and questions relating to the award, increase, decrease, suspension or cancellation of any pension and empowers the Commission to "determine any question of interpretation of this Act and the decision of the Commission on any such question is final". Owing to these broad powers and to apparent inconsistencies in the Act, there is often room for doubt that the application given to the legislative provisions would commend itself to Parliament. The situation is illustrated in the following paragraphs.

Sections 14, 36, 38, 39 and 45 of the Act each permit a pension award if the applicant is in a "dependent condition", defined as "the condition of being without earnings or income sufficient to provide maintenance". No mention is, however, made of the treatment to be given when the applicant has assets, and many instances have been observed where pension awards had been made to persons holding cash, securities and other assets in amounts which would have precluded them from receiving assistance under other legislation involving means tests.

Since the amount awarded to an applicant in a dependent condition is based upon the additional income he requires to maintain himself, it follows that if the applicant had failed to disclose income, this would result in an overpayment. However, in a number of instances in which undisclosed income was noted and drawn to the attention of the Commission, the pension was simply adjusted currently and no overpayment was considered as having occurred.

An eligibility requirement for a pension award to a dependent parent under Section 38 is that the parent was, or would have been at a later date, "wholly or to a substantial extent" maintained by the member of the forces. An assignment of pay, often of small amount, is usually accepted as the test of dependency, it being assumed that had the soldier survived, he alone would have borne the burden of support. Cases have been noted where as many as 12 surviving children make no contribution towards the support of the parent.

Subsection (3) of Section 38 requires that for a parent, or person in the place of a parent, to be treated as having fallen into a dependent condition subsequent to the death of a member of the forces, the parent or other person must be "incapacitated by mental or physical infirmity from earning a livelihood". But subsection (7) provides that the pension to a widowed mother shall not be reduced on account of her earnings from personal employment and, on the strength of this, pensions awarded to widowed mothers under Section 38(3) are continued in payment even though they have been able to undertake full-time employment.

Section 25 empowers the Commission to "grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious, but in which the Commission has decided that the applicant is otherwise unqualified to receive such an award or supplementary award under this Act". For many years, outstanding war service was the dominant factor in making compassionate awards, but a recent review of payments made under this section indicated that the tendency had developed of viewing the term "specially meritorious" as "well deserving", without necessarily any military connotation. A number of cases were observed, for example, where additional pensions were paid in respect of wives whose marital status is not recognized under Canadian law.

Subsection (2) of Section 40 provides that not more than one pension shall be awarded in respect of the death of any one member of the forces "except when children are awarded pensions, or parents are awarded a pension jointly, or brothers or sisters are awarded pension, or a pension is divided among several applicants". This subsection would appear to contemplate limitation of a pension in respect of death to a single class of recipient such as to a widow, children or parents. But, in fact, other sections of the Act provide for payments in stated amounts to these classes and so one death can result in payments being made concurrently to a widow (section 37), children (section 26) and parents (section 38).

73. *Revolving fund maximum balance exceeded.* Vote 517 of Appropriation Act No. 5, 1958, authorized the operation of a revolving fund for the purpose of financing the manufacture of Remembrance Day poppies and wreaths, with the proviso that the amount to be charged to the revolving fund at any time was not to exceed \$350,000. When this limit was reached in September 1959, an advance of \$50,000 from the vote for "Miscellaneous minor or unforeseen expenses" (Vote 116) was authorized by the Treasury Board to supplement the Fund, with the proviso that the amount be "subject to recoupment from the first proceeds of the 1959 Campaign for sales of poppies and wreaths".

Since the maximum amount of the Fund was fixed by Parliament at \$350,000, its increase to \$400,000, even temporarily, is open to question.

74. *Interpretation of the term "casual earnings" under the War Veterans Allowance Act.* Section 6 of the War Veterans Allowance Act, 1952, provides that certain classes of receipts are not to be treated as income in determining eligibility for allowance payments, and the exempted classes include "any casual earnings of the recipient". The Act does not define the term "casual earnings" but the War Veterans Allowance Board has directed that earnings from part-time employment, even though of a continuing nature, be exempt to the extent of \$50 a month, and that earnings from full-time temporary employment be exempt for the first twelve weeks of such employment in a year.

This interpretation seems to go beyond what would ordinarily be accepted as a reasonable definition of the term "casual earnings".

75. *Extinguishment of debt due to the Crown for overpayment of allowance.* An order in council authorized the Department of Veterans Affairs to accept \$3,000 in cash in full settlement of a debt of \$12,469, and approved "non-enforcement of payment of the balance of \$9,469". The debt arose because a recipient of war veteran's allowance concealed his income from a business during a period of over 20 years and thus received allowances to which he was not entitled. The overpayment was discovered after his death when his widow was awarded a widow's allowance. An investigation of her financial position disclosed that the estate of the deceased included approximately \$11,000 in

seven bank accounts, together with a house and a car. When the widow offered a compromise settlement of \$3,000 in return for a "full and unequivocal discharge of the widow, her heirs, executors and administrators and the estate of the deceased veteran", the department accepted the offer and gave the discharge in the terms requested.

To give a "full and unequivocal discharge" not only to the widow but also to her heirs is tantamount to extinguishing the debt, which is the sole prerogative of Parliament.

76. *Payments to civil servants additional to salary.* Subsection (1) of Section 16 of the Civil Service Act reads:

"In the absence of special authority of Parliament, no payment additional to the salary authorized by law shall be made to any deputy head, officer, clerk or employee permanently employed in the Civil Service in respect of any service rendered by him, whether in the discharge of his ordinary duties of office or of any other duties that may be imposed upon him, or that he may undertake or volunteer to discharge or otherwise perform."

Instances were noted during the year under review where honoraria, terminable allowances, etc., were authorized by the Executive, as charges to general votes, by relying on Section 60 of the Civil Service Act to permit the exemption of the positions from the operation of Section 16 in order that the extra payments might be made. Section 60 reads as follows:

"60.(1) In any case where the Commission decides that it is not practicable nor in the public interest to apply this Act to any position or positions, the Commission may, with the approval of the Governor in Council, exclude such position or positions in whole or in part from the operation of the Act, and make such regulations as are deemed advisable prescribing how such position or positions are to be dealt with."

An example was the case of an honorarium of \$1,000 paid to an officer of the Department of Finance and charged to the appropriation for "Departmental Administration" (Vote 106).

It has long been the Audit Office view that the phrase "special authority of Parliament" in subsection (1) of Section 16 means that a special parliamentary appropriation or specific mention in the text of a general vote is a condition precedent to a payment being made to a public officer additional to his salary. This has been the practice followed when civil servants have been called upon to render services to Royal Commissions.

77. *Civil servant working for two departments.* Additional payments to civil servants who perform duties for more than one department are prohibited by subsection (1) of Section 16 of the Civil Service Act except where the Civil Service Commission, under subsection (2), authorizes a separate annual salary to be paid with respect to part-time services performed for each department. An instance was nevertheless observed where a doctor employed on a full-time basis at a Veterans Affairs hospital was also engaged in his spare time by the Department of National Defence as a consultant pathologist at a Naval hospital, and in 1959-60 he was paid about \$1,700 for this service.

In addition to being contrary to the Civil Service Act, the arrangement also lacked conformity with the Naval regulations because, in order to comply in form with the regulations, the doctor's claims were submitted in such a way as to indicate attendance on specific duty days although, in fact, he gave service when required at week-ends and other off-duty times.

78. *Unauthorized salary payments beyond retirement age.* The practice of setting up, as receivable, amounts equivalent to the salaries earned by employees during periods when they had been employed beyond retirement age without due authority, and later deleting the balances from the accounts as "uncollectible", was referred to in the 1956-57 report and described as a "clumsy practice".

In the year under review, 11 cases were noted where civil servants had been paid salaries in amounts totalling \$80,000 during such periods, due, in most cases, to a lack of authentic information concerning the dates of birth of the recipients.

Inasmuch as the problem of civil servants working beyond retirement age without the requisite prior approval appears to be a continuing one, it would be more realistic were

- (a) departments required to verify the age of employees before they are near retirement age in those cases where birth certificates had not been provided at the commencement of employment; and
- (b) employees who deliberately conceal their age penalized by withholding retirement leave, or by some other means.

Consideration might also be given to providing the Governor in Council with authority to recognize work performed after retirement age and approve the employment beyond that age retroactively, when necessary.

79. *Overpayments of pension to former civil servants.* Recovery of overpayments was noted as having been waived by the Governor in Council in three cases during the year under review, where pensions of retired civil servants had not been suspended during periods of re-employment. The resultant loss to the Superannuation Account amounted to \$7,404.

We are of the opinion that the waiving of recovery of overpayments of pension in such cases requires an appropriation by Parliament to replenish the Superannuation Account because this account should not be permanently charged with payments not authorized by the Public Service Superannuation Act. Moreover, recovery of the overpayments is possible.

80. *Unpaid accounts charged to new fiscal year.* In the following instances the departments concerned had incurred expenditures beyond what had been provided by parlia-

mentary appropriations for the year, and had avoided recording over-expenditure of the appropriations simply by carrying unpaid accounts forward to the 1960-61 fiscal year:

1. In April 1956 the Department of Transport was authorized to enter into a contract for a term of four years commencing January 1, 1956 for the dredging of the St. Lawrence River Ship Channel below Montreal, and capital dredging costs amounting to \$12,904,535 were incurred during the term of the contract. Because the amount of \$5,094,000 made available in 1959-60 by Vote 408, as supplemented by Vote 629, was inadequate to meet costs incurred in the year, \$365,582 was carried forward as a charge to an appropriation provided in 1960-61 to meet costs incurred under a new agreement with the same contractor, for a term of two years commencing January 1, 1960.
2. Vote 25, as supplemented by Votes 496 and 635, provided \$8,187,000 for the payment of quality premiums on high grade hog carcasses by the Department of Agriculture. Payments to producers are made through the issue, at inspection points, of warrants negotiable at chartered banks. The banks are subsequently reimbursed for redeemed warrants by payments charged to appropriations provided annually for the purpose. Because the warrant is a negotiable instrument, the practice has been to charge the annual appropriations with the value of warrants outstanding at the close of each fiscal year and to credit a liability account, "Hog Premiums—Outstanding Warrants", with a like amount. However, the amount available in the appropriation as at March 31, 1960 was inadequate for the purpose, with the result that \$547,770 was carried forward as a charge to the 1960-61 appropriation.
3. Vote 623 provided \$25,000 for expenses of the Royal Commission on Coal. \$24,975 was charged to the appropriation but additional accounts totalling \$20,945 for services rendered prior to March 31, 1960 were carried forward as charges to 1960-61.

The governmental accounts are kept on a cash basis, subject to year-end adjustment by reason of the provision of Section 35 of the Financial Administration Act that payments made during the thirty days following the end of the year, with respect to goods received and services rendered prior to the end of the fiscal year, may be charged to the accounts of that year. Where necessary, therefore, adequate supplementary appropriations should be sought by departments when balances remaining in appropriations appear insufficient to absorb all charges likely to come in course of payment for goods and services required to be supplied by the year-end.

81. *Non-productive payments.* A number of cases were observed in the course of our examinations where amounts were paid out for plans and designs and pre-production expenses although the projects never reached completion. The following cases illustrate:

1. An architect was engaged by the Department of Public Works in 1954 to prepare plans and specifications for, and to supervise the construction of, an addition to the postal terminal building in Halifax. In 1955 he submitted plans for premises which it was estimated would cost \$1,250,000 to construct. When the Post Office Department requested that, instead, a new terminal building be provided, the requirements of the department were re-studied and eventually it was decided that an addition of a different type would meet requirements and could be constructed for about \$800,000. The original architect was not re-engaged and payments totalling \$37,500 were made for his services—\$24,600 in 1958-59 and the balance of \$12,900 in 1959-60.

2. Early in 1958 the Treasury Board authorized the Department of National Defence to undertake an extension to a wharf at Dartmouth at an estimated cost of \$800,000. to accommodate vessels of the Royal Canadian Navy, the Hydrographic Fleet of the Department of Mines and Technical Surveys and the Royal Canadian Mounted Police. A contract was placed for the planning and preparation of plans and specifications which, when completed, cost \$39,515. Tenders were then called for the construction but when Treasury Board approval was sought for acceptance of the lowest bid of \$823,591, it was withheld on the grounds that it had been decided to accommodate the Hydrographic Fleet elsewhere, and that no final decision had been reached regarding the berthing of R.C.M.P. vessels.
3. A contract was placed for the Department of National Defence in May 1956 for the conversion of nine trucks into mobile workshops at a cost of \$17,919. When the first truck was delivered to the contractor in July of that year it was found that it was considerably shorter than expected and unsuitable for the installation of the necessary equipment without a major rebuilding job. Notice of cancellation was given and during the year under review the contractor was paid \$8,386 in settlement of pre-production expenses.

82. *Losses reported in the Public Accounts.* Section 98 of the Financial Administration Act directs that "every payment out of the Public Officers Guarantee Account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the Public Accounts". The statement of losses included in the Public Accounts for 1959-60 was examined and it was ascertained that—except for losses suffered by the Post Office Department—every loss during the year which had been observed in the audit as being of a nature requiring to be reported in the Public Accounts is included in the listing.

Following established practice, a listing is also included in the Public Accounts of those losses which were charged to the Post Office Guarantee Fund during the year ended March 31, 1960, but these charges were all with respect to losses that had been suffered in previous years. Losses totalling \$37,237 that had been suffered during the year under review and that were still under investigation or with respect to which collections were still being made, were not included in the listing. In the Audit Office view, it would be more in keeping with the statutory requirement were Post Office losses suffered during the year included in the statement of losses published in the Public Accounts.

83. *Responsibility for loss of public funds.* From time to time cases have been observed where public funds in the custody of members of the forces have been lost under circumstances in which the custodians could give no satisfactory explanation and no evidence could be adduced as to what had happened. According to departmental legal officers, no specific regulation existed whereby the officers concerned could be held financially responsible for such losses.

During the year under review a case was noted in which an accounting officer, finding himself short in his accounts, submitted fraudulent travel advance vouchers to

a total of \$405. He was courtmartialled, pleaded guilty to charges of "making false entries" and "failing to account for public funds", and was dismissed from the service. The attention of the department was drawn to the case when it was observed that there was no intention to seek recovery of the amount of the shortage. Although, as in previous cases, the departmental legal officers were of the opinion that negligence had not been proven and therefore an administrative deduction could not be assessed, the department decided to refer the case to the Department of Justice for an opinion. The opinion received was to the effect that to take so strict a view of the present regulations concerning liability for public property "would permit a servant charged with the responsibility of accounting for his master's monies entrusted to him to evade that responsibility and the heavy presumption that his negligence caused the deficiency by simply stating that he could offer no explanation of the deficiency". As a result of this opinion, the \$405 was recovered from monies withheld from the officer at the time of his dismissal.

During the year a similar opinion was given by the Department of Justice in another case and resulted in a deduction of \$1,000 against an officer who was short \$2,000 and unable to explain the deficiency satisfactorily.

It is understood that the department has under consideration amending the regulations to make it plain that an officer or man who has funds in his custody is responsible to make good any loss that may occur unless he is able to give a satisfactory explanation of the loss.

84. *Unusual payment from a special account of Canadian Wheat Board.* Although the Auditor General is not the auditor of the Canadian Wheat Board, the unusual nature of a payment approved by an Order in Council out of a special account provided for by statute is regarded as bringing it within the scope of Section 70 of the Financial Administration Act, which requires the Auditor General to call attention, among other things, to any other case that he "considers should be brought to the notice of the House of Commons".

Section 29A of the Canadian Wheat Board Act, as amended by c. 26, 1952-53, provides for the transfer to a "separate account", after the payment of certain costs, of undistributed balances that have been held by the Board for six years or more. Subsection (2) of the section reads, in part:

"Any balance transferred to the separate account . . . shall be used for such purposes as the Governor in Council, upon the recommendation of the Board, may deem to be for the benefit of producers."

On September 23, 1959, an annex of one of the terminal elevators at Port Arthur collapsed, dumping into Lake Superior substantial quantities of wheat, oats and barley. Included in the loss was grain owned by the Canadian Wheat Board, to a value of \$2,406,175, as evidenced by warehouse receipts. The company that operates the terminal

took the position that the Board as holder of the warehouse receipts, sustained the loss occasioned by the destruction of the grain to the extent of the warehouse receipts it held (although information on file indicates that the company did not take this position with respect to relatively small quantities of flaxseed and rye which were also lost, and with respect to which it honoured all outstanding warehouse receipts thereby absorbing the loss incurred). On the other hand, the Canadian Wheat Board took the position that its right against the company to deliver wheat, oats and barley in accordance with the terms of the warehouse receipts was unaffected by the destruction of the grain in the annex.

The dispute was referred to the Minister of Trade and Commerce who, after discussing the matter with the Chief Commissioner and other officials of the Board and with representatives of the company, recommended to the Governor in Council that a sum of \$775,000 be paid out of the Separate Account in settlement of the balance of the loss, following payment by the company of \$1,631,175. Having regard for the requirement of subsection (2) of Section 29A, quoted above, the Order in Council approving the payment recited that:

"the Canadian Wheat Board recommends that if the Governor in Council considers such payment to be for the benefit of producers, a sum of \$775,000 of the monies in the said Separate Account be used to pay the balance of the purchase price in the sum of \$775,000 . . ."

Summary of Assets and Liabilities

85. Section 64 of the Financial Administration Act requires that there be included in the Public Accounts a statement certified by the Auditor General of "such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

86. The Statement of Assets and Liabilities for the year ended March 31, 1960, with comparative figures at the end of the preceding year, prepared and certified in accordance with this requirement, is given as Appendix 2 to this report. The Statement was prepared on a modified cash basis, as in previous years, and explanations regarding certain aspects of this basis of presentation are included in the introduction to the Public Accounts, as follows:

"With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or other capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of \$1 . . .

"On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the 'Current and demand liabilities' schedule of the statement of assets and liabilities."

Assets

87. The following table lists the assets at March 31, 1960 by main headings in the Statement of Assets and Liabilities (Appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1958	March 31, 1959	March 31, 1960
Current assets	\$ 699,729,000	\$ 910,944,000	\$ 862,147,000
Advances to the Exchange Fund Account ..	1,975,000,000	1,995,000,000	1,960,000,000
Sinking fund and other investments held for retirement of unmatured debt	211,741,000	83,214,000	85,272,000
Loans to and investments in Crown cor- porations	2,554,409,000	3,271,061,000	3,446,662,000
Loans to national governments	1,487,985,000	1,448,960,000	1,414,528,000
Other loans and investments	662,648,000	683,056,000	934,471,000
Securities held in trust	22,646,000	20,742,000	30,612,000
Deferred charges—Unamortized loan flota- tion costs	77,535,000	147,431,000	150,993,000
Unamortized portion of actuarial deficiencies	139,000,000	465,300,000	465,300,000
Suspense accounts	2,000	2,000	33,000
Inactive loans and investments	90,854,000	92,216,000	93,539,000
Total Assets	7,921,549,000	9,117,926,000	9,443,557,000
Less—Reserve for losses on realization of assets	546,384,000	546,384,000	546,384,000
Net Assets	\$ 7,375,165,000	\$ 8,571,542,000	\$ 8,897,173,000

88. *Current assets.* The balances included under this heading at March 31, 1960 with the comparable balances at the close of the two previous years were:

	March 31, 1958	March 31, 1959	March 31, 1960
Cash	\$ 468,013,000	\$ 640,459,000	\$ 565,436,000
Departmental working capital advances and revolving funds:			
Agricultural commodities stabilization ac- count	26,524,000	67,078,000	120,698,000
Defence production revolving fund	54,576,000	30,161,000	20,667,000
Other	49,181,000	54,743,000	54,645,000
	130,281,000	151,982,000	196,010,000
Securities investment account	79,846,000	98,031,000	77,863,000
Other current assets	21,589,000	20,472,000	22,838,000
	\$ 699,729,000	\$ 910,944,000	\$ 862,147,000

The increase of \$53,620,000 (80%) in the Agricultural Commodities Stabilization Account at March 31, 1960 compared with the corresponding balance at the end of the preceding year was largely accounted for by increases of \$53,249,000 (256%) in the inventory of pork and \$9,864,000 (30%) in the inventory of butter, less a decrease of \$9,345,000 (94%) in the inventory of dry skimmed milk. The reduction of \$9,494,000 (31%) in the Defence Production Revolving Fund resulted largely from the repayment to the Fund by Canadian Arsenals Limited of \$7,500,000 of working capital advances.

89. *Advances to the Exchange Fund Account.* The purpose of the Exchange Fund Account, which is operated on behalf of the Minister of Finance by the Bank of Canada, is "to aid in the control and protection of the external value of the Canadian monetary unit".

The advances to the Account at March 31, 1960 are included in the Statement of Assets and Liabilities at their full total of \$1,960 million. A parenthetical note associated with the item explains that the value of the investments from advances was \$1,746 million at March 31, 1960, indicating an unrecorded deficiency of \$214 million. The following briefly summarizes the nature of this deficiency:

Net loss on dealings in gold and foreign currencies and securities and on revaluations of gold and foreign currencies, since establishment of the Exchange Fund Account in 1935	\$ 136,000,000
Exchange loss arising from valuation of United States dollar holdings at the exchange rate of \$0.95 $\frac{1}{4}$ at March 31, 1960	78,000,000
	<hr/>
	\$ 214,000,000
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Comment is made in paragraph 106 regarding the practice of carrying the advances made to the Exchange Fund Account without adjustment for the deficiency shown above.

90. *Sinking fund and other investments held for retirement of unmatured debt.* The following is a summary of the balances comprising this item at March 31, 1960 in comparison with the corresponding balances at the close of the two previous years:

	<u>March 31, 1958</u>	<u>March 31, 1959</u>	<u>March 31, 1960</u>
Investments held for sinking fund maintained with respect to Newfoundland loans assumed under Terms of Union ..\$	13,886,000	\$ 14,931,000	\$ 15,960,000
Additional investment in Newfoundland guaranteed stock held for retirement of Newfoundland loans	18,761,000	18,811,000	19,822,000
Investments held for retirement of loans payable in New York	179,094,000	49,472,000	49,490,000
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	\$ 211,741,000	\$ 83,214,000	\$ 85,272,000
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91. *Loans to and investments in Crown corporations.* The following table lists these loans and investments at March 31, 1960 with the comparable balances at the close of the two previous years:

	March 31, 1958	March 31, 1959	March 31, 1960
Central Mortgage and Housing Corporation	\$ 668,017,000	\$ 1,003,576,000	\$ 1,318,683,000
Canadian National Railways	1,266,227,000	1,468,179,000	1,207,808,000
The St. Lawrence Seaway Authority	176,743,000	282,819,000	315,927,000
National Harbours Board	125,431,000	145,632,000	161,398,000
Northern Ontario Pipe Line Crown Corporation	70,750,000	113,500,000	121,500,000
Farm Credit Corporation	65,172,000	87,219,000	115,700,000
Atomic Energy of Canada Limited	56,044,000	58,789,000	59,374,000
Northern Canada Power Commission	14,355,000	21,639,000	34,585,000
Polymer Corporation Limited	30,000,000	30,000,000	30,000,000
Canadian Overseas Telecommunication Corporation	12,636,000	12,979,000	22,590,000
Other balances	69,034,000	46,729,000	59,097,000
	<u>\$ 2,554,409,000</u>	<u>\$ 3,271,061,000</u>	<u>\$ 3,446,662,000</u>

The \$315 million increase in the investment in the Central Mortgage and Housing Corporation resulted from loans of \$352 million being made to the Corporation during the year, under Section 22 of the Central Mortgage and Housing Corporation Act, less repayments in respect of loans made in previous years.

The decrease of \$260 million during the year in the loans to and investment in the Canadian National Railways resulted from repayments of advances to the extent of \$490 million, while advances made to the company under annual Canadian National Railways Financing and Guarantee Acts amounted to \$208 million, and purchases of 4% preferred stock under Section 6 of the Canadian National Railways Capital Revision Act, c. 311, R.S., amounted to \$22 million.

The \$59,097,000 of "other balances" at March 31, 1960 included loans to or investments in the following corporations: National Capital Commission, \$17,742,000; Export Credits Insurance Corporation, \$10,000,000; Eldorado Mining and Refining Limited, \$8,247,000; Canadian Arsenal Limited, \$7,500,000; Canadian Commercial Corporation, \$6,000,000; and Bank of Canada, \$5,920,000.

92. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1960 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1958	March 31, 1959	March 31, 1960
Belgium	\$ 43,833,000	\$ 41,526,000	\$ 39,219,000
France	169,000,000	160,550,000	152,100,000
India	16,173,000	33,000,000	33,000,000
Netherlands	89,504,000	84,340,000	79,177,000
United Kingdom	1,163,397,000	1,124,703,000	1,108,287,000
Other countries	6,078,000	4,841,000	2,745,000
	<u>\$ 1,487,985,000</u>	<u>\$ 1,448,960,000</u>	<u>\$ 1,414,528,000</u>

Of the \$34 million decrease during the year under review, \$18 million resulted from repayments by Belgium, France, the Netherlands and Norway, of loans made to them under the provisions of the Export Credits Insurance Act, while \$16 million was repaid by the United Kingdom on the loan authorized by the United Kingdom Financial Agreement Act, 1946.

93. *Other loans and investments.* The balances comprising this asset item at March 31, 1960, with the comparable balances for the two previous years, were:

	March 31, 1958	March 31, 1959	March 31, 1960
Subscriptions to capital of and working capital advances and loans to international organizations	\$ 372,561,000	\$ 369,916,000	\$ 605,175,000
Veterans' Land Act advances	201,733,000	192,857,000	188,903,000
Less—Reserve for conditional benefits ..	47,760,000	41,857,000	37,277,000
	153,973,000	151,000,000	151,626,000
Loans to provincial governments	70,828,000	96,339,000	90,397,000
Old Age Security Fund, temporary loan .			28,001,000
Balances receivable under agreements of sale of Crown assets	21,963,000	19,105,000	15,982,000
Other balances	43,323,000	46,696,000	43,290,000
	<u>\$ 662,648,000</u>	<u>\$ 683,056,000</u>	<u>\$ 934,471,000</u>

The increase of \$235 million (64%) in the first of these items during 1959-60 was due to the increase of that amount in Canada's subscription to the capital of the International Monetary Fund. The \$28 million temporary loan to the Old Age Security Fund represented the deficit from the Fund's transactions for 1959-60 carried forward to 1960-61; in the preceding year the deficit in the Fund's operations was charged to budgetary expenditures (see paragraph 28). This accounting treatment stems from the decision, stated in the Budget Speech of April 9, 1959, to carry the deficit forward to 1960-61, in anticipation that it would be covered by increased receipts credited to the Fund as a result of the increased rates of old age security tax.

94. *Securities held in trust.* The net increase of \$10 million (48%) in this item is more than accounted for by the inclusion in 1959-60 for the first time of \$14 million of security bonds lodged by various departments with the Securities Deposit Branch of the Department of Finance. The most significant amounts were \$6 million of guarantee deposits with the Department of Northern Affairs and National Resources in connection with permits for exploratory work with respect to oil and gas on territorial lands, and \$6 million of guarantee deposits with the Department of National Revenue to secure payment of customs duties and excise taxes on certain products released in advance.

95. *Unamortized portion of actuarial deficiencies.* The amounts appearing under this caption in the Statement represent the extent to which the balances at credit of the Public

Service Superannuation Account and the Canadian Forces Superannuation Account—apart from the non-cash entries referred to in paragraphs 107 and 108—fell short of the estimated actuarial liabilities of the two pension plans, calculated as at December 31, 1951 and March 31, 1958, respectively.

In our opinion, there should be a plan, approved by Parliament, for amortizing the balances of these two actuarial deficiencies, aggregating \$465,300,000 at March 31, 1960, if they are to continue to be carried as "assets" on the Statement and if the offsetting credits are to remain in the two superannuation accounts. Explanations regarding these credits are given in paragraphs 107 and 108.

96. *Inactive loans and investments.* The \$93,539,000 shown for this item in the Statement at March 31, 1960 comprised the following balances:

Loan to China, in 1946, under the Export Credits Insurance Act	\$ 49,426,000
Loans to Greece and Roumania, in 1919, for the purchase of goods produced in Canada	30,854,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company (carrying prior guarantee by the Government of China)	13,185,000
Loan to Province of Saskatchewan, in 1908, for the purchase of seed grain	74,000
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	\$ 93,539,000
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The amount shown for the third item in the above listing is \$1,323,000 greater than the corresponding amount at March 31, 1959 by reason of a payment covering \$1,275,000 of principal and \$48,000 of interest during 1959-60 under the terms of the guarantee. A contingent liability exists to meet the final payment of \$1,285,000 in 1960-61, covering \$1,275,000 of principal and \$10,000 of interest.

Liabilities

97. The following table lists the liabilities at March 31, 1960 by main headings in the Statement of Assets and Liabilities (Appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1958	March 31, 1959	March 31, 1960
Current and demand liabilities	\$ 877,751,000	\$ 952,560,000	\$ 1,099,057,000
Deposit and trust accounts	187,037,000	237,917,000	242,673,000
Annuity, insurance and pension accounts ..	2,712,813,000	3,301,861,000	3,565,376,000
Undisbursed balances of appropriations to special accounts	285,367,000	83,387,000	96,620,000
Deferred credits	76,813,000	81,429,000	83,961,000
Suspense accounts	36,551,000	18,664,000	8,528,000
Unmatured debt	14,245,107,000	15,574,113,000	15,890,152,000
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	\$ 18,421,439,000	\$ 20,249,931,000	\$ 20,986,367,000
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98. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1960 were:

Non-interest-bearing notes payable to the International Monetary Fund and the International Bank for Reconstruction and Development	\$ 381,828,000
Accounts payable	245,099,000
Outstanding Treasury cheques	228,768,000
Interest accrued	137,622,000
Other balances	105,740,000
	<hr/>
	\$1,099,057,000
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The only significant change in any of these balances during the year under review was an increase of \$176 million in the first amount, due to the issue of additional non-interest-bearing notes payable to the International Monetary Fund as part of the increase in Canada's subscription to the capital of the Fund (see paragraph 93).

99. *Deposit and trust accounts.* The following is a summary of the balances included in this item at March 31, 1960:

United States Strategic Air Command	\$ 33,927,000
Post Office Savings Bank	29,372,000
Indian trust funds	29,224,000
Contractors' security deposits	27,705,000
Deposits by Crown corporations	19,269,000
Contractors' holdbacks	17,398,000
Korean Operations Pool	16,104,000
Guarantee deposits	14,345,000
Canadian Pension Commission (Administration trust fund)	10,281,000
Other balances (77 in number)	45,048,000
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	\$ 242,673,000
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The accounts of the Korean Operations Pool are maintained by the Australian Government, and record the expenditures incurred by the Commonwealth countries which had participated in the Korean war, and the apportionment of these expenditures among the countries according to their respective shares. Canada received \$9,293,000 during the year ended March 31, 1960 as its share of the proceeds from the disposal of Pool equipment and stores. After crediting this amount, and charging \$573,000 as Canada's share of logistic support, the balance of \$16,104,000 at the credit of the account, as shown in the above table, represents the amount available towards settling the remainder of Canada's share of the expenditures when other participating governments submit their billings to the Pool.

100. *Annuity, insurance and pension accounts.* The following is a listing of the balances making up this item at March 31, 1960 in comparison with the corresponding balances at the close of the two previous years:

	<u>March 31, 1958</u>	<u>March 31, 1959</u>	<u>March 31, 1960</u>
Government annuities	\$ 1,047,641,000	\$ 1,105,825,000	\$ 1,156,867,000
Public Service Superannuation Account	1,045,760,000	1,136,022,000	1,229,620,000
Canadian Forces Superannuation Account ..	513,869,000	942,315,000	1,053,011,000
Other balances	105,543,000	117,699,000	125,878,000
	<u>\$ 2,712,813,000</u>	<u>\$ 3,301,861,000</u>	<u>\$ 3,565,376,000</u>

The balance at the credit of the Government Annuities Account at the close of each fiscal year represented the actuarial liability in respect of outstanding annuity contracts. This was after annually crediting the Account (with a corresponding charge to Expenditure) with the amount required to adjust the balance to the year-end actuarial liability, as is required by Section 15 of the Government Annuities Act, c. 132, R.S.

Section 32 of the Public Service Superannuation Act, c. 47, 1952-53, requires that credits be given to the Public Service Superannuation Account (with corresponding charges to Expenditure) for the following:

- (a) interest on balances at credit of the Account;
- (b) annual contributions matching the total amounts of contributions by employees in respect of current service;
- (c) annual contributions, as determined by the Minister, matching amounts of contributions by employees in respect of past service; and
- (d) amounts to provide for the increase in cost to the Crown of benefits payable as a result of salary increases of general application to the Public Service.

The year-end balances at the credit of the Account, as shown in the above table, were after recording these statutory credits along with credits for employees' contributions. The balances also include \$139,000,000 which resulted from a non-cash entry made in a previous year, crediting the Account to increase the balance to the amount of the actuarial liability and charging an account called "unamortized portion of actuarial deficiency in the Public Service Superannuation Account" (see paragraph 107).

The balances at the credit of the Canadian Forces Superannuation Account at March 31, 1960 and at the close of the preceding year were after crediting, in addition to members' contributions, amounts provided by means of annual parliamentary appropriations (at one and two-thirds of the contributions by members of the forces) together with interest on the balances at credit of the Account. The balance was augmented by a non-cash credit of \$326,300,000 to the Account in 1958-59, with a corresponding charge to an account called "unamortized portion of actuarial deficiency in the Canadian Forces Superannuation Account" (see paragraph 108).

The "other balances" in the liability item "annuity, insurance and pension accounts" includes the uninvested portion of the Unemployment Insurance Fund on deposit with the Receiver General—\$22,765,000 at March 31, 1960. The amount of the Fund at the close of the 1959-60 fiscal year was \$377,258,000 (see also paragraph 109).

101. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances comprising this item in the Statement of Assets and Liabilities, compared with the corresponding balances for the two previous years:

	March 31, 1958	March 31, 1959	March 31, 1960
Colombo Plan Fund	\$ 60,368,000	\$ 59,878,000	\$ 62,966,000
Railway Grade Crossing Fund	12,648,000	22,560,000	31,196,000
National Capital Fund	543,000	860,000	2,360,000
Other	69,000	89,000	98,000
National Defence Equipment Account	211,739,000		
	<u>\$ 285,367,000</u>	<u>\$ 83,387,000</u>	<u>\$ 96,620,000</u>

During the year ended March 31, 1960 an amount of \$50 million provided under Vote 98 was credited to the account for the Colombo Plan, while expenditures totalling \$46,912,000 were charged to the account for aid given to countries in South and South-East Asia.

Amounts totalling \$15 million, provided under Section 265 of the Railway Act and Vote 444, were credited to the account for the Railway Grade Crossing Fund during 1959-60, while expenditures totalling \$6,364,000 were incurred in aiding in the cost of installation of protective devices at railway grade crossings and in the cost of grade separations.

During the year ended March 31, 1960 an amount of \$4,000,000 provided under Vote 307 was credited to the account for the National Capital Fund, while amounts totalling \$2,500,000 were paid over to the National Capital Commission to finance the cost of capital projects approved by the Governor in Council.

The \$211,739,000 balance of the National Defence Equipment Account at March 31, 1958 was utilized in absorbing certain expenditures of the Department of National Defence during the year ended March 31, 1959 (see paragraph 27).

102. *Deferred credits.* The following is an analysis of this item at the close of the 1959-60 fiscal year:

Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946	\$ 44,174,000
Deferred interest on loans to The St. Lawrence Seaway Authority	19,427,000
Credits arising from the recording of agreements of sale of Crown assets	13,554,000
Equity in agency account of Crown Assets Disposal Corporation	5,603,000
Other balances	1,203,000
	<u>\$ 83,961,000</u>

The only significant change during the year was the increase of \$6,608,000 in the deferred interest on loans to The St. Lawrence Seaway Authority. This deferred interest will become payable by the Authority commencing in 1963, along with repayments of principal and current interest.

103. *Suspense accounts.* The only large balance included in this item on the liabilities side of the Statement of Assets and Liabilities at March 31, 1960 was that of \$3,623,000 at the credit of the Replacement of Materiel Account maintained pursuant to Section 11 of the National Defence Act. Amounts credited to the Account during the year for the proceeds of sales to other countries of "materiel not immediately required", totalled \$3,841,000, while the amounts applied towards the procurement of materiel during the year totalled \$14,063,000. There was accordingly a reduction of \$10,222,000 during the year in the balance of the Account.

104. *Unmatured debt.* A summary of the unmaturred debt outstanding at March 31, 1960, in comparison with balances outstanding at the close of the two previous years, is as follows:

	<u>March 31, 1958</u>	<u>March 31, 1959</u>	<u>March 31, 1960</u>
Bonds:			
Payable in Canada	\$ 12,368,296,000	\$ 13,777,302,000	\$ 13,563,341,000
Payable in London	51,811,000	51,811,000	51,811,000
Payable in New York	300,000,000	150,000,000	150,000,000
	<u>12,720,107,000</u>	<u>13,979,113,000</u>	<u>13,765,152,000</u>
Treasury Bills	1,525,000,000	1,595,000,000	2,125,000,000
	<u>\$ 14,245,107,000</u>	<u>\$ 15,574,113,000</u>	<u>\$ 15,890,152,000</u>

Net Debt

105. With the Liabilities amounting to \$20,986,367,000 (paragraph 97) and the Assets to \$8,897,173,000 (paragraph 87), the Net Debt at March 31, 1960 was \$12,089,194,000. The following is an analysis of the Net Debt Account for the year under review:

Balance at March 31, 1959		\$ 11,678,390,000
Deduct—Write-up of loans to:		
City of Montreal re Atwater Avenue Tunnel	\$ 2,000,000	
City of Vancouver re Airport Terminal Building	306,000	
		<u>2,306,000</u>
		11,676,084,000
Add—Deficit for the fiscal year 1959-60:		
Expenditure	5,702,861,000	
Revenue	<u>5,289,751,000</u>	
		413,110,000
Balance at March 31, 1960		<u>\$ 12,089,194,000</u>

The credits resulting from the write-up of the two loans were the amounts, as determined during the year, to be recovered under the terms of the agreements with the respective cities as their shares of the construction costs of the projects mentioned. The full amount of the cost of each project had been charged to Expenditure in previous years.

Comments on Asset and Liability Items

106. *Advances to Exchange Fund Account.* In paragraph 89 reference is made to the composition of the unrecorded deficiency between the advances to the Exchange Fund Account, included in full as an asset in the Statement, and the value of investments from advances at the year-end.

As the net loss amounting to \$136 million on dealings in gold and foreign currencies and securities, and on revaluations of gold and foreign currencies, represented a cost of exchange management over the period since the establishment of the Account, we are of the opinion that it should be written off in the accounts of Canada with parliamentary authority.

The Currency, Mint and Exchange Fund Act, under which the Exchange Fund Account operates, makes provision for payment of interest earnings to the Receiver General within three months after the end of each calendar year. In our opinion, consideration should be given to transferring annually to the Consolidated Revenue Fund the profit or loss resulting from trading operations and revaluations of holdings.

107. *Public Service Superannuation Account.* In paragraph 100 mention is made of the fact that the balance of the Public Service Superannuation Account, forming part of the "annuity, insurance and pension accounts" item, included \$139,000,000 which resulted from a non-cash entry made in a previous year, which at the same time set up an offsetting "asset" item called "unamortized portion of actuarial deficiency in the Public Service Superannuation Account". It is understood that the Department of Finance relied for the making of this entry (which increased the balance at the credit of the Account to an amount equal to the actuarial liability) on the general direction given by Section 64 of the Financial Administration Act that the Statement include "such of the assets and liabilities of Canada as in the opinion of the Minister are required to show the financial position of Canada as at the termination of the fiscal year".

In the Audit Office view, as has been mentioned in previous annual reports, the Account should have been credited only with amounts provided for by the Public Service Superannuation Act. The actuarial deficiency in the Account at the year-end should, in the opinion of the Audit Office, have been disclosed by means of a footnote to the Statement of Assets and Liabilities.

Another point that is of audit concern was mentioned in the report for 1954, namely, that when the balance is increased through the crediting of amounts that are not provided

for by statute, a question arises as to the legality of charging Expenditure for the extra amount of interest credited annually (\$7,994,000 in 1959-60) as the Act authorizes interest to be credited only "on the balance at credit of the Account".

No special appropriation was provided during the year under review to reduce the actuarial deficiency. An actuarial report dated August 1959 indicated that the deficiency had increased from \$139 million to \$277 million at December 31, 1957.

108. *Canadian Forces Superannuation Account.* In paragraph 100 reference is made to the non-cash entry of \$326,300,000 which gave credit to this Account in 1958-59, with a corresponding charge being made to the "asset" account entitled "unamortized portion of actuarial deficiency in Canadian Forces Superannuation Account". In the Audit Office view, amounts additional to contributions by members of the forces should be credited to the Account only when authorized by parliamentary appropriations. The question of the propriety of charging Expenditure for the additional interest credited annually (\$13,651,000 in 1959-60) by reason of the enlargement of the balance at credit of the Account arises in the same way as in the case of the Public Service Superannuation Account mentioned in the preceding paragraph.

Not only was no special appropriation provided to reduce the actuarial deficiency during the year under review but, the rates of contribution having remained the same, the deficiency has undoubtedly increased. A reason is that the Canadian Forces Superannuation Act, c. 21, 1959, which replaced the Defence Services Pension Act with effect from July 8, 1959, permits benefits greater than had been provided under the former Act, for example:

- (a) Under the former Act a member of the forces who had served for 10 years or more and was released because of inefficiency in the performance of his duties was entitled to only one-half pension to age 65 and two-thirds pension thereafter. The present Act continues this entitlement but also permits a larger award to be made at the discretion of the Treasury Board (for example, an officer released because of inefficiency was awarded a pension of \$2,732 a year instead of the statutory minimum of \$1,438, as mentioned in paragraph 52).
- (b) Under the former Act a member of the forces who had served for less than 20 years and retired voluntarily was entitled only to a return of his contributions. The present Act provides, as an alternative, for an award of pension at the discretion of the Treasury Board if the member has served for 10 years or more (for example, a 42 year old officer who had contributed only \$5,481 to the Fund was granted an annuity of \$1,526, having a capital value of approximately \$38,000, after serving some 17 years).

109. *Unemployment Insurance Fund.* In paragraph 100 reference is made to the practice of including in the item for "annuity, insurance and pension accounts" only the uninvested portion of the Unemployment Insurance Fund. There may be technical arguments in favour of this method of presentation since, under the Unemployment Insurance Act, the investments of the Fund are held in trust by the Bank of Canada

for the Unemployment Insurance Commission. However, the practice places the Unemployment Insurance Fund in a position similar to a Crown corporation although, unlike such a corporation:

- (a) all the receipts of the Commission flow into the Consolidated Revenue Fund and all disbursements made for purposes of the Fund are paid out of the Consolidated Revenue Fund; and
- (b) the Commission is not required by statute to prepare annual financial statements subject to audit.

It is therefore the Audit Office view, as was stated in the report for 1956-57, that the practice of including in the liability item only the uninvested portion of the Fund should be further considered. Were the full amount of the Fund to be included in the item, the securities held at the year-end would be carried as a contra item on the Assets side of the Statement.

The balance at credit of the Fund at March 31, 1960 was \$365,892,000, a decrease of \$560,885,000 from its highest level of \$926,777,000 in December 1956. The large decrease in the balance at credit of the Fund during the last three fiscal years is analyzed in the following table:

	<u>1957-58</u>	<u>1958-59</u>	<u>1959-60</u>
Expenditures:			
Benefit payments	\$ 385,078,000	\$ 478,631,000	\$ 415,234,000
Interest on advances from the Minister of Finance			1,517,000
			<u>416,751,000</u>
Revenues:			
Contributions from employers and employees ..	189,179,000	185,487,000	228,616,000
Contributions by Government of Canada	37,836,000	37,097,000	45,723,000
Other receipts	28,004,000	21,773,000	16,907,000
Less: Loss on sale of securities	4,182,000	10,115,000	8,414,000
	<u>23,822,000</u>	<u>11,658,000</u>	<u>8,493,000</u>
	<u>250,837,000</u>	<u>234,242,000</u>	<u>282,832,000</u>
Excess of Expenditures over Revenues, representing decrease in balance at credit of the Fund ..	\$ 134,241,000	\$ 244,389,000	\$ 133,919,000

The excess of expenditures over revenues in 1959-60, shown above at \$133,919,000, was financed by advances from the Minister of Finance under Section 86 of the Act and by the sale of securities. The advances, which totalled \$79,000,000, were repaid by the end of the year.

The numbers of persons receiving unemployment insurance benefits at the close of each of the past three years were as follows: 859,639 at March 31, 1958, 766,852 at March 31, 1959, and 823,005 at March 31, 1960.

Changes in the Unemployment Insurance Act and regulations over the years have resulted in a broadening of the coverage and in decreasing emphasis on insurance principles recognized when the Fund was established in 1941. Various classes of seasonal employment were successively brought under the Act. Those employed in lumbering and logging operations in British Columbia were made insurable in 1945, transportation by water in 1946, stevedoring in 1948, lumbering and logging operations in the remainder of Canada in 1950, and fishing in 1957. Separate figures in respect of benefits paid to and contributions received from these special classes are available only for fishermen; they received benefits approximating \$26,700,000 from April 1957 to March 31, 1960, whereas contributions for this class during the same period amounted to \$2,900,000.

Special regulations imposed additional conditions on seasonal workers, and also on farmers who engage in insurable employment in the farming off-season, and on married women, to test that they were actually in the labour market when applying for benefits. However, these special regulations were in due course revoked, those applicable to seasonal workers because they came into conflict with regulations governing seasonal benefits, and those applicable to farmers and married women because they were considered discriminatory.

The coverage of fishermen, the majority of whom are self-employed rather than under contract of service, has created serious difficulties in administration and control because it is not practicable to apply two of the basic conditions for receiving benefits, i.e., that the applicant be unemployed and available for work.

Older workers, many of whom have been pensioned from their regular employment and married women also present special problems because of the difficulty in verifying that they are actually in the labour market and therefore entitled to benefit payments.

Supplementary benefits were introduced in February 1950 to meet the needs of claimants who had not made a sufficient number of contributions to qualify for regular benefits, the rate being about 80% of the regular benefit rate. The period during which supplementary benefits could be drawn was originally three months, but in 1953 this was extended to 3½ months, with contributions to the Fund being increased in recognition of the resultant additional benefit payments. In 1955 these supplementary benefits were made equal to regular benefits and the name changed to 'seasonal'. Effective December 1957, the number of weeks of benefit for a given number of contribution-weeks was increased and the seasonal benefit period was extended (by 3½ months for the winter of 1957-58 and by 2 months for each of the last two winters). No increases in contributions to the Fund were provided to compensate for the additional cost arising from the above

changes. In September 1959 there was a general increase in contribution rates but no special contribution was made to compensate for the previous drain on the Fund caused by these changes in seasonal benefits.

The report of the actuary, dated July 12, 1960, observes that "there is a distinct possibility that if unemployment conditions continue at the level that prevailed in 1957-60, the Unemployment Insurance Fund may be exhausted in two or three years unless action is taken to increase revenue or decrease benefit payments".

Crown Corporations

110. Section 87 of the Financial Administration Act requires the auditor of an agency or a proprietary Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the relative corporation, and the report is required to state whether, in the auditor's opinion:

- "(a) proper books of account have been kept by the corporation;
- (b) the financial statements of the corporation
 - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
 - (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and
 - (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and
- (c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation."

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

111. Section 87 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and Section 85 directs that such annual report be laid before Parliament by the appropriate Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume II of the Public Accounts.

112. The Auditor General is eligible to be appointed the auditor, or a joint auditor, of a Crown corporation, and the accounts and financial statements of 22 of the 26 corporations were examined by the Audit Office in the year under review, as follows:

<u>Corporation</u>	<u>Reporting Minister</u>
<i>Agency corporations:</i>	
Atomic Energy of Canada Limited	Trade and Commerce
Canadian Arsenals Limited	Defence Production
Canadian Commercial Corporation	Defence Production
Canadian Patents and Development Limited	Trade and Commerce
Crown Assets Disposal Corporation	Defence Production
Defence Construction (1951) Limited	Defence Production
National Capital Commission	Public Works
National Harbours Board	Transport
Northern Canada Power Commission	Northern Affairs and National Resources
Park Steamship Company Limited	Transport
The National Battlefields Commission	Northern Affairs and National Resources
<i>Proprietary corporations:</i>	
Canadian Broadcasting Corporation	National Revenue
Canadian Overseas Telecommunication Corporation	Transport
Cornwall International Bridge Company Limited	Transport
Eldorado Aviation Limited	Trade and Commerce
Eldorado Mining and Refining Limited	Trade and Commerce
Export Credits Insurance Corporation	Trade and Commerce
Farm Credit Corporation	Agriculture
Northern Transportation Company Limited	Trade and Commerce
Polymer Corporation Limited	Defence Production
The St. Lawrence Seaway Authority	Transport
<i>Other:</i>	
Northern Ontario Pipe Line Crown Corporation	Trade and Commerce

113. The accounts of the following Crown corporations and other public instrumentalities were not examined by the Auditor General during the year under review:

	<u>Reporting Minister</u>
Bank of Canada	Finance
Canadian National Railways	Transport
The Canadian National Railways Securities Trust	Transport
Canadian National (West Indies) Steamships Limited ...	Transport
The Canadian Wheat Board	Trade and Commerce
Central Mortgage and Housing Corporation	Public Works
Industrial Development Bank	Finance
Trans-Canada Air Lines	Transport

114. The following paragraphs summarize the operating results of Crown corporations whose accounts were examined by the Audit Office during the year and include comments regarding the extent of the Crown's equity in each at the year-end, together with references to any qualifications made or explanations given by the Auditor General in his statutory audit report. They do not include references to the contents of Audit Office reports (see paragraph 9) where addressed to the managements of the corporations concerning their accounts for the year.

Agency Corporations

115. An agency corporation is an agent of Her Majesty in right of Canada and is responsible for the management of trading or service operations on a quasi-commercial basis, or for the management of procurement, construction or disposal activities on behalf of Her Majesty.

116. *Atomic Energy of Canada Limited.* Expenditures for the 1959-60 research program of this company aggregated \$31,574,000, of which \$20,047,000 was for operating costs and \$11,527,000 for capital outlays. In the case of the operating program, the available parliamentary appropriations and other income exceeded expenditures by \$972,000, which amount has been refunded to the Receiver General of Canada. Of the \$11,527,000 of capital expenditures, \$10,797,000 was provided for by a parliamentary appropriation and the balance out of retained earnings account. Income from the company's commercial operations amounted to \$3,154,000 and expenses to \$2,629,000. The resultant excess of income over expense of \$525,000 was credited to retained earnings account.

As at March 31, 1960, the Crown's financial interest in the company as reflected in the balance sheet amounted to \$62,794,000, comprising: unexpended balance of \$972,000 provided under a parliamentary appropriation; loans of \$5,374,000 to provide housing for employees; unrealized profit of \$753,000 on property sold on deferred payment terms; capital stock of \$54,000,000 and retained earnings of \$1,695,000. Apart from these amounts was the investment in that portion of the capital assets which had been written off as research expense over the years, to a total of \$89,184,000.

117. *Canadian Arsenals Limited.* During the year ended March 31, 1960, this company's sales amounted to \$25,049,000 and income from other sources was \$431,000, while cost of sales totalled \$20,965,000 and administrative expenses amounted to \$821,000. The resultant excess of income over expense for the year was \$3,694,000 before charging for unabsorbed overhead expenses. Cost of sales included charges for overhead at rates which would theoretically have absorbed overhead expenses had all the plants under the company's administration been operating at full capacity. As this was not the case, there were unabsorbed overhead expenses amounting to \$5,754,000 which were attributed to idle plant capacity. After taking this into consideration, the net result of operations was a deficit of \$2,060,000. A parliamentary appropriation (Vote 74) provided \$2,000,000 towards this deficit and the remaining \$60,000 was reflected in the balance sheet as recoverable from the Government of Canada at the year-end.

As at March 31, 1960 the company was financed by: advances of \$15,386,000 from the Department of National Defence in respect of orders placed; advances of \$7,500,000 from the Defence Production Revolving Fund; and advances of \$7,500,000 from the Government of Canada for working capital. The company had under its administration nine Government-owned plants, the total cost of which exceeded \$103,000,000.

118. *Canadian Commercial Corporation.* The income of this corporation for the year ended March 31, 1960 totalled \$227,000 while administrative expenses amounted to \$294,000, giving an excess of expense over income of \$67,000, which was charged to surplus account. At the year-end the corporation's agency account showed \$2,114,000 for obligations to principals, representing advances from various governments and international bodies. The Crown's equity in the corporation at the year-end consisted of \$6,000,000 of working capital advances and a surplus account balance of \$900,000.

The audit report to the Minister included a reference to certain advances having been made to a supplier, in excess of those normally provided, to enable a project to be completed. It was observed that repayment of the advances was dependent on settlement of a claim for contract adjustment made by the corporation to its customer.

119. *Crown Assets Disposal Corporation.* The proceeds from sales of surplus Crown assets by this corporation during the year ended March 31, 1960 amounted to \$8,405,000. As of April 1, 1959, the Governor in Council authorized the corporation to retain 4% of the net proceeds from sales of lands and buildings and 10% of the net proceeds of all other sales and other income earned by the corporation, to meet administrative costs and other expenses (previously the corporation had been authorized to retain 10% of the net proceeds of all sales and other income). The percentage of net proceeds of sales and other income, retained during the year under review, resulted in corporate income of \$738,000, which included \$90,000 derived from sales for the account of the United States Government. Administrative expenses amounted to \$606,000, leaving an excess of income over expense of \$132,000.

During the year, the Governor in Council directed the corporation to pay to the Receiver General, at intervals of not longer than six months, all of its surplus in excess of \$100,000, and remittances amounting to \$415,000 were made to the Receiver General in accordance with this direction.

120. *Defence Construction (1951) Limited.* The expenses incurred by this company during the year ended March 31, 1960 in supervising construction and maintenance projects for the Department of National Defence and others (involving expenditure of some \$103 million) totalled \$3,207,000. After deducting \$156,000 with respect to fees earned for various engineering and administrative services, etc., there remained \$3,051,000 of net operating expenses to be met from the parliamentary appropriation provided for the purpose.

121. *National Capital Commission.* During the year ended March 31, 1960, the Commission was provided with funds through a parliamentary appropriation of \$1,795,000 for "Administration, and Operation and Maintenance of parks, parkways and grounds adjoining Government Buildings at Ottawa and Hull". The funds thus provided were supplemented by income from equipment rentals, sales of supplies and nursery stocks, etc., in the amount of \$160,000, making available for expenditure a total of \$1,955,000. Expenditures totalled \$1,897,000 and the balance of \$58,000 was recorded as refundable to the Receiver General. Interest charges on Government of Canada loans, amounting to \$590,000, were provided for by means of a parliamentary appropriation of \$460,000 supplemented by rental and other income amounting to \$133,000. The unexpended balance of \$3,000 was recorded as refundable to the Receiver General.

As of March 31, 1960, a balance of \$2,360,000 was held by the Minister of Finance at the credit of the National Capital Fund, which was established by the National Capital Act, available for payment to the Commission to finance, with the approval of the Governor in Council, the cost of capital projects of the Commission and contributions towards the cost of municipal projects within the National Capital Region.

At the beginning of the year, the unexpended balance of funds received from the National Capital Fund by the Commission was \$345,000, to which was added \$2,500,000 drawn from the Fund and \$77,000 arising from sales of land. Capital outlays, principally for roads, driveways, parks and boulevards, amounted to \$1,806,000, while contributions to municipalities respecting capital works were \$595,000, leaving an unexpended balance at the end of the year of \$521,000.

Loans received by the Commission from the Government of Canada for the acquisition of property in the National Capital Region increased by \$10,642,000 during the year to \$17,742,000, and of this amount \$17,292,000 had been expended.

The accumulated cost of capital assets under the administration of the Commission amounted to \$51,194,000 at the year-end.

122. *National Harbours Board.* The Board's financial statements given in the Public Accounts are a consolidation of the balance sheets and statements of income and expense for the harbours of Halifax, Saint John, Chicoutimi, Quebec, Three Rivers, Montreal, Churchill and Vancouver, as well as the grain elevators at Prescott and Port Colborne and the Jacques Cartier Bridge at Montreal. Total operating income for the financial year ended December 31, 1959 amounted to \$24,206,000 and the operating expenses to \$15,598,000, leaving a net operating income of \$8,608,000. After adding income from investments, etc., of \$2,344,000 and deducting \$7,925,000 for interest on loans and advances, \$3,403,000 for provision for replacement of capital assets and \$219,000 for other special charges, a net loss of \$595,000 resulted. This amount was added to the accumulated deficit brought forward from the previous year.

The proprietary equity of the Government of Canada as of December 31, 1959, as shown on the Board's balance sheet, was \$399,243,000, comprising: value of assets transferred to the Board, \$56,923,000; loans and advances, \$265,997,000; interest in arrears on loans and advances, \$54,010,000; and reserve for replacement of capital assets and other reserves, \$89,085,000—less an accumulated deficit of \$66,772,000.

123. *Northern Canada Power Commission.* The Commission's income amounted to \$2,507,000 for the year ended March 31, 1960. Expenses amounted to \$2,117,000, comprising: operating expenses, \$834,000; maintenance, \$72,000; administration, \$156,000; interest on advances from the Government of Canada, \$507,000; and depreciation, \$548,000. The resultant net income of \$390,000 was carried to surplus account. At the year-end the balance at credit of surplus account was \$510,000 after transferring \$138,000 to the reserve for contingencies and \$105,000 to the reserve for extension, expansion and improvements. The balances in these reserve accounts then stood at \$815,000 and \$212,000, respectively.

The liability to the Government of Canada with respect to advances to the Commission for capital construction purposes under Sections 14 and 15 of the Northern Canada Power Commission Act was \$25,857,000, and for advances pursuant to agreements entered into under the Atlantic Provinces Power Development Act, \$9,201,000.

124. *Park Steamship Company Limited.* The active operations of this company ceased in 1947 on the disposal of the government-owned fleet of cargo ships under its administration, and the activities of the company have since been confined to the liquidation of the accounts and claims relating to those operations.

125. *The National Battlefields Commission.* During its financial year ended March 31, 1960, the activities of this Commission were financed by \$178,000 provided by a parliamentary appropriation. Expenditures amounted to \$171,000 and the excess of income over expense of \$7,000 was credited to the proprietary equity account.

The Government of Canada's equity in the Commission was \$1,437,000, represented by a special reserve fund of \$13,000 and a proprietary equity account balance of \$1,424,000.

Proprietary Corporations

126. A proprietary corporation is responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.

127. *Canadian Broadcasting Corporation.* The expenses of the corporation for the year ended March 31, 1960 amounted to \$94,040,000. Costs of production and distribution for programs without advertising were recorded as \$48,387,000, and for programs with

advertising, as \$32,581,000. Operational supervision and services of \$6,878,000 and selling and general administration of \$5,703,000 largely accounted for the balance of the expenses. Commercial revenue amounted to \$38,162,000 and interest on investments and miscellaneous income to \$402,000. A parliamentary appropriation (Vote 43) provided \$58,404,000, of which \$6,104,000 was not required, with the result that the Government of Canada paid \$52,300,000 in respect of the net operating requirements of the radio and television services. Offsetting amounts of \$3,175,000 are recorded in the Statement of Operations and the Statement of Proprietor's Equity Account to compensate for the inclusion in operating expenses, for cost ascertainment purposes only, of the provision made for depreciation of capital assets.

The equity of the Government of Canada at March 31, 1960, as shown by the Statement of Proprietor's Equity Account, stood at \$34,232,000, representing working capital of \$6,000,000 and capital assets of \$28,232,000.

The International Broadcasting Service facilities are operated by the corporation on behalf of the Government of Canada and are shown on the corporation's balance sheet at cost in the amount of \$6,264,000. These facilities have been acquired over the years through charges to annual parliamentary appropriations for "International Shortwave Broadcasting Service—Construction or Acquisition of Buildings, Works, Land and Equipment, including Supervision".

128. *Canadian Overseas Telecommunication Corporation.* Income for the year ended March 31, 1960 amounted to \$5,778,000. Operating, administrative, traffic solicitation and other expenses aggregated \$3,892,000 and, after providing \$938,000 for income taxes, there was a net profit of \$948,000 which was credited to surplus account.

The Government of Canada's equity in the corporation at March 31, 1960, totalled \$25,179,000, consisting of \$22,590,000 advanced under Section 14 of the Canadian Overseas Telecommunication Corporation Act, together with \$2,589,000 at credit of surplus account.

129. *Cornwall International Bridge Company Limited.* This company is jointly owned by The St. Lawrence Seaway Authority and its United States counterpart, the Saint Lawrence Seaway Development Corporation. The company's income for its financial year ended September 30, 1959 amounted to \$320,000, principally derived from the assessment of bridge tolls. Operating and administrative expenses aggregated \$117,000. The resultant net income of \$203,000 was transferred to The St. Lawrence Seaway Authority in lieu of rental for the right-of-way over bridge, management fee, etc.

The shareholders' equity in the company totalled \$110,000, comprising \$50,000 of capital stock and a surplus balance of \$60,000, after deducting \$37,000 for the loss sustained on the abandonment of capital assets during the year under review.

130. *Eldorado Aviation Limited.* This company is a wholly-owned subsidiary of Eldorado Mining and Refining Limited providing aviation facilities exclusively to the Eldorado group. Operational and administrative expenses for the year ended December 31, 1959, amounting to \$962,000, including depreciation of \$153,000, were apportioned between Eldorado Mining and Refining Limited and its other subsidiary, Northern Transportation Company Limited, in the amounts of \$856,000 and \$106,000, respectively.

The capital of the company consisted of \$28,006 of capital stock together with a surplus balance of \$217,000 which arose from proceeds of insurance, profits on sale of aircraft and major spare parts and prior years' adjustments.

131. *Eldorado Mining and Refining Limited.* During the year ended December 31, 1959 sales and other income amounted to \$38,414,000, exclusive of amounts totalling \$295,330,000 derived from the sale of uranium concentrates purchased from other producers and on which no profit was earned by the company. Cost of sales totalled \$27,418,000 and scientific research, exploration and administrative costs totalled \$1,439,000. After a charge of \$1,043,000 for the cost of additional benefits in respect of past service, arising on establishment of a new pension plan for employees, and a provision for income tax in the amount of \$4,380,000, a net profit for the year of \$4,134,000 remained and was credited to surplus account. Dividends of \$4,230,000 were paid to the Receiver General during the year.

The Government of Canada's equity in the company as at December 31, 1959 amounted to \$53,306,000, represented by capital stock and surplus in the amounts of \$6,586,000 and \$46,720,000, respectively.

132. *Export Credits Insurance Corporation.* The income of this corporation for its financial year ended December 31, 1959, amounting to \$1,240,000, consisted of: premiums on risks insured, \$558,000; portion of premiums in respect of insurance entered into under Section 21 of the Export Credits Insurance Act, \$115,000; and interest earned on Government of Canada bonds, \$567,000. Administrative expenses amounted to \$235,000. Policyholders' claims amounting to \$176,000 were paid by the corporation, while recoveries of claims previously paid amounted to \$335,000. The net result of the operations for the year amounted to \$1,164,000 which was carried to the credit of the underwriting reserve, as required by Section 11A of the Export Credits Insurance Act.

The Government of Canada's equity in the corporation at December 31, 1959 was \$10,000,000, consisting of share capital of \$5,000,000 and capital surplus of \$5,000,000. Investments in Government of Canada securities held by the corporation at the year-end amounted to \$15,205,000 so that the Government's equity, plus the underwriting reserve of \$4,905,000, was more than offset by the Government securities held by the corporation.

The liability of the corporation under the contracts of insurance issued and outstanding as of December 31, 1959 totalled \$159,117,000, of which \$98,956,000 was for contracts entered into under Section 21 of the Act, which provides that all moneys

required to discharge the liabilities arising under such contracts are payable to the corporation by the Minister of Finance out of unappropriated moneys in the Consolidated Revenue Fund.

133. *Farm Credit Corporation.* This corporation is the successor to the Canadian Farm Loan Board, under the Farm Credit Act, c. 43, 1959, proclaimed on October 5, 1959. Under Section 30 of the Act, the Farm Credit Corporation assumed all property, rights, obligations and liabilities of the Canadian Farm Loan Board.

During the financial year ended March 31, 1960, 5,339 loans were made to farmers to a total of \$40,031,000, and repayments amounted to \$7,904,000. Loans outstanding at the balance sheet date, including accrued interest, amounted to \$120,152,000. Interest earned on loans to farmers during the year amounted to \$5,027,000 and other income to \$129,000. After deducting \$3,751,000 for interest on loans from the Government of Canada, an amount of \$1,405,000 was available to meet administrative expenses, which totalled \$1,165,000. The resultant net earnings of \$240,000 were carried to the statutory reserve for losses, increasing the balance at the credit of that reserve to \$3,749,000 at the year-end.

Pursuant to Section 30 of the Act, the issued and outstanding shares of capital stock of the Canadian Farm Loan Board, consisting of 50,000 shares with a fully paid value of \$5,000,000, were cancelled and a like amount was deemed to have been paid to the corporation, as capital, by the Minister of Finance under Section 12 of the Act. Government of Canada loans to the corporation as at March 31, 1960, amounted to \$110,700,000, including \$15,800,000 obtained during the last six months of the year at an interest rate of $5\frac{3}{4}\%$ per annum. Under Section 16 of the Act, these funds were loaned to farmers at 5% per annum. Over the repayment period of 25 years, it is estimated that the interest loss to the corporation on these loans will amount to over \$2,000,000.

134. *Northern Transportation Company Limited.* The income of this company, a wholly-owned subsidiary of Eldorado Mining and Refining Limited, amounted to \$3,847,000 for its financial year ended December 31, 1959, while operating and administrative expenses and provisions for depreciation totalled \$3,287,000. After deducting \$400,000 for the cost of additional benefits in respect of past service, arising on establishment of a new pension plan for employees, and \$76,000 for the provision for income tax, \$84,000 remained which was credited to surplus account. During 1959, in order to provide for possible marine losses not protected by commercial insurance, the sum of \$100,000 was transferred from surplus account to a reserve for marine insurance. The parent company's equity in the company at December 31, 1959 was \$5,613,000, consisting of \$152,000 of capital stock and \$5,461,000 of surplus.

135. *Polymer Corporation Limited.* During its financial year ended December 31, 1959, net sales of products and services of this company amounted to \$59,847,000 and other income to \$405,000. Cost of sales amounted to \$50,923,000 and other expenses to

\$3,018,000. After providing \$2,621,000 for income tax, a net income for the year of \$3,690,000 resulted and was credited to surplus account. Dividends of \$3,000,000 were paid to the Receiver General during the year.

The Government of Canada's equity in the company at December 31, 1959 was \$57,750,000, consisting of \$30,000,000 in capital stock and \$27,750,000 in surplus.

136. *The St. Lawrence Seaway Authority.* The Authority commenced operations on April 25, 1959, and during the period to December 31, 1959 income from tolls and other sources totalled \$9,214,000. Administrative, operating and maintenance expenses amounted to \$3,953,000. After a charge of \$7,994,000 for interest on loans from the Government of Canada and provision of \$3,955,000 for depreciation, there was a net loss of \$6,688,000 which was carried to the deficit account.

Responsibility for the operation of non-toll canals and other properties at Lachine, Cornwall, Sault Ste. Marie and Niagara Peninsula was transferred to the Authority from the Department of Transport as from April 1, 1959. A net amount of \$1,656,000 was recovered from parliamentary appropriations to cover the operating and maintenance expenses of \$830,000 and the cost of construction of works and acquisition of equipment of \$1,139,000, less income from rentals, wharfage and other sources of \$313,000.

The Government of Canada's equity at December 31, 1959 is shown on the Authority's balance sheet as follows:

Capital assets transferred from Department of Transport, April 1, 1959 (including Welland Ship Canal at a value of \$130,716,000)	\$ 179,353,000
Loans under Section 25 of the Act	285,500,000
Interest on loans—matured and capitalized	24,427,000
	<hr/>
	489,280,000
<i>Deduct:</i> Deficit—net loss for the period April 25, 1959, commencement of operations, to December 31, 1959	6,688,000
	<hr/>
	<u>\$ 482,592,000</u>

137. *Northern Ontario Pipe Line Crown Corporation.* The capital cost of \$124,583,000 of the Northern Ontario section of the all-Canadian natural gas pipe line at December 31, 1959 consisted of \$115,082,000 of assets acquired or in course of construction, and \$9,501,000 of engineering, administration and financing expenses, financed out of funds provided through loans by the Government of Canada under Section 6 of the Northern Ontario Pipe Line Crown Corporation Act. The excess of income from pipe line rentals of \$5,642,000, over interest on invested capital of \$4,792,000, amounted to \$850,000 and was credited to a reserve to be available for meeting obligations to the lessee, Trans-Canada Pipe Lines Limited, in the event that it exercises its rights under the existing purchase-option lease agreement.

Departmental Operating Activities

138. Extensive trading or servicing activities are operated by several departments, for example:

Agricultural commodities stabilization activities, operated by the Agricultural Stabilization Board under the Department of Agriculture;

National Film Board, under the Department of Citizenship and Immigration;

Royal Canadian Mint, under the Department of Finance;

Post Office activities;

Public Printing and Stationery activities;

Board of Grain Commissioners, under the Department of Trade and Commerce;

Canadian Government Elevators, operated by the Board of Grain Commissioners under the Department of Trade and Commerce;

Airports operations, under the Department of Transport.

139. A general statutory direction is contained in the Financial Administration Act as to the way in which the operating results of Crown corporations are to be reflected in annual financial statements. There are, however, no statutory directions regarding the preparation of financial statements in respect of trading or servicing functions carried on as departmental activities. Revenues arising from such activities are included in the accounts as revenues of the departments concerned, while the expenditures which involve cash outlays in the year are recorded as charges against the parliamentary appropriations for those departments. Where statutory revolving funds are used to acquire materials, statements summarizing the transactions in the revolving fund accounts are included in the Public Accounts.

It will be noted from the Public Accounts that there are a few instances where financial statements showing operating results from departmental operating activities are included. However, for the reasons already explained in paragraph 13, the costs shown in these statements include only the direct costs arising from cash outlays by the departments concerned.

140. *Agricultural commodities stabilization activities.* The Agricultural Stabilization Board was established by the Agricultural Stabilization Act, c. 22, 1957-58. Stabilizing measures take the form of either the purchase of commodities at prescribed prices, or payment to producers of the amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold. Purchased commodities may be sold or otherwise disposed of by the Board. The Board's activities are financed through the Agricultural Commodities Stabilization Account, to which charges are made for purchases of commodities and for other expenditures incurred, except administration expenses, and to which credits are recorded for all monies received by the Board from sales of commodities.

The transactions recorded through the Agricultural Commodities Stabilization Account during the year ended March 31, 1960, as shown in the Public Accounts, page A-56, are summarized as follows:

Trading losses:	
Pork	\$ 27,862,000
Dry skimmed milk	8,108,000
Eggs	4,810,000
Butter	3,409,000
Other	697,000
	<hr/>
	\$ 44,886,000
Stabilization payments:	
Milk	9,844,000
Sugar beets	2,657,000
Wool	1,219,000
Soya beans	1,217,000
Other	396,000
	<hr/>
	15,333,000
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	\$ 60,219,000
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The above loss for 1959-60, which represented the direct cost of stabilization measures taken by the Board, together with a residual balance of \$107,000 brought forward from 1958-59, exceeded the amount of \$57,661,000 provided by Vote 640 by \$2,665,000, and this amount remained to be carried forward as a charge to Expenditure in 1960-61.

Various indirect costs were also incurred in relation to the stabilization program. The administrative expenses of the Agricultural Stabilization Board totalling \$224,000 were charged to the appropriation for "Agricultural Stabilization Act Administration" (Votes 10 and 490) as shown on page A-16 of the Public Accounts. In addition, special accounting services with respect to the stabilization program are rendered by the Office of the Comptroller of the Treasury, as a charge to the appropriation for the costs of that Office (Vote 107, 1959-60). Interest on the funds employed is not taken into consideration.

At March 31, 1960 inventories held by the Board amounted to \$117,796,000, comprising: pork, \$74,085,000; butter, \$42,256,000; and other inventories, \$1,455,000.

141. *National Film Board.* The National Film Board was established by the National Film Act, c. 185, R.S., in order to promote the production and distribution of films in the national interest. The expenditures of the Board are charged to the National Film Board Operating Account provided for by Section 18 of the Act, and the Account is credited with income from the sale of films and miscellaneous revenues, and with amounts transferred from annual parliamentary appropriations for "Administration, Production and Distribution of Films and Other Visual Materials" (Vote 234 in 1959-60).

Under provisions of the Act, the Board maintains an accounting system on the accrual basis, additional to the accounts maintained by the Comptroller of the Treasury with respect to cash transactions. The financial statements for the year ended March 31, 1960,

prepared from the Board's accounts, are included in the Public Accounts, pages T-9 to T-11. The following is a summary of the transactions for the year as shown in the Statement of Income and Expense:

Expense:		
Production of films	\$ 2,441,000	
Distribution of films	1,912,000	
Administration and general services	782,000	
Cost of production of films and other visual materials for government departments and others	1,158,000	
Acquisition of equipment	194,000	
		\$ 6,487,000
Income:		
Sales of film and other visual materials to government departments and others	1,359,000	
Rentals and royalties	576,000	
Miscellaneous	21,000	
		1,956,000
Net expense		\$ 4,531,000

The net expense for the year as thus determined is without including charges for amortization of building construction costs and office furniture and furnishings, maintenance services provided by the Department of Public Works, interest on funds employed, etc.

142. *Royal Canadian Mint.* The Royal Canadian Mint operates under Part II of the Currency, Mint and Exchange Fund Act, c. 315, R.S., which requires that facilities be provided for making coins of the currency of Canada and for melting, assaying and refining gold.

Revolving fund accounts are maintained for the purchase of the gold, silver and other metals used by the Mint in its operations, and inventories acquired through these accounts totalled \$11,380,000 at the beginning of the year under review. Metal purchases charged to the several "purchase accounts" during the year totalled \$95,172,000, comprising: gold, \$88,311,000; silver, \$6,441,000; nickel, \$162,000; bronze, \$257,000, and steel, \$1,000. Credits to the purchase accounts totalled \$100,036,000, comprising: \$90,384,000 for sales of gold to the Bank of Canada and sundry purchasers; \$8,219,000 for sales of silver coin; \$25,000 for sales of silver bullion; \$570,000 for nickel coins, and \$838,000 for bronze coins. The inventories on hand at March 31, 1960 amounted to \$11,503,000, after a downward adjustment of \$83,000 for year-end gold revaluation.

Amounts credited to the purchase accounts for sales of coin were at face value, and the excess of such amounts over the cost of metals used, together with the gold refining gain, was transferred to the credit of revenue of the Department of Finance, as follows: gain on coinage operations, \$5,040,000; and gold refining gain, \$30,000. In addition, there were revenues of \$171,000 for gold refining charges and \$189,000 for gold handling charges, making total revenues of \$5,430,000.

Expenditures totalling \$1,223,000 were charged to parliamentary appropriations, as follows: administration, operation and maintenance, \$1,156,000; and construction or acquisition of equipment, \$67,000.

The net result of these charges and credits, as reported in the Department of Finance section of the Public Accounts, was an excess of revenue over expenditure of \$4,207,000. Costs not reflected in the accounts include amortization of building and equipment costs, interest on funds employed, etc.

143. *Post Office activities.* The activities of the Post Office are carried on in accordance with the Post Office Act, c. 212, R.S.

The following is a summary of the Post Office transactions, reported as revenues, and as charges against parliamentary appropriations, in the Post Office section of the Public Accounts:

Gross postal revenue	\$ 193,593,000
Less: Expenses paid from revenue	26,031,000
	<hr/>
Net postal revenue	167,562,000
Miscellaneous revenue	67,000
	<hr/>
	167,629,000
Deduct: Expenditure paid from parliamentary appropriations	
Operations	\$ 101,351,000
Transportation	59,803,000
Administration, financial services, etc.	4,638,000
	<hr/>
	165,792,000
	<hr/>
Excess of Revenue over Expenditure	\$ 1,837,000
	<hr/>

This recorded excess of revenue over expenditure does not, however, take into consideration charges for:

- (a) amortization of building construction costs (the cost of constructing new buildings is borne by appropriations for the Department of Public Works);
- (b) maintenance and operation of buildings (this cost is undertaken as a charge to appropriations for the Department of Public Works);
- (c) amortization of furniture and equipment cost (in lieu of charges presently included for purchases, against either Public Works or Post Office appropriations);
- (d) share of the Government's contributions towards employees' superannuation;
- (e) interest on funds employed;
- (f) interest on Post Office Savings Bank deposits (presently recorded as a charge to interest on the public debt);

nor credits for:

- (a) mail franked by and sent to Members of Parliament and government departments;
- (b) interest on Post Office Savings Bank funds on deposit with the Receiver General.

144. *Public Printing and Stationery activities.* The activities of the Department of Public Printing and Stationery are governed by the Public Printing and Stationery Act, c. 226, R.S., which places responsibility on the department for the execution of printing

and lithographing and the acquisition and distribution of papers, books and other articles of stationery required by the Senate and House of Commons and the various departments. In addition, the department is responsible for the sale of all books and publications issued by order of either or both Houses of Parliament or by any department.

The basic operating expenses of the Department of Public Printing and Stationery are charged to the Queen's Printer's Advance Account, and credits are made to the Account for the value of the printing work executed for and charged (at "factory cost") to the various government departments, and for the value of stationery supplied and charged (at purchase cost) to the departments. The following is a summary of the transactions in the Account for the year ended March 31, 1960:

Revenue:		
Printing work executed	\$ 15,522,000	
Stationery supplied	2,686,000	
		\$ 18,208,000
Expenditure:		
Salaries	1,189,000	
Wages	4,513,000	
Paper, printing material, etc., (including \$448,000 reduction in inventory)	3,683,000	
Outside printing, etc.	5,710,000	
Stationery purchased (including \$66,000 reduction in inventory)	2,667,000	
Other	266,000	
		18,028,000
Excess of revenue over expenditure, comprising \$161,000 on printing operations and \$19,000 on stationery transactions		\$ 180,000

In addition to the expenditure thus recorded through the Advance Account, there were expenses totalling \$3,467,000 charged to appropriations, as follows:

Departmental administration	\$ 642,000
Purchasing, stationery and stores (largely for salaries of purchasing personnel, and repairs to office equipment)	1,152,000
Distribution of official documents	429,000
Printing and binding of publications for sale and distribution to departments and the public	689,000
Printing of Canada Gazette	131,000
Printing and binding the annual Statutes	45,000
Plant equipment and replacements	379,000
	\$ 3,467,000

Credits to Revenue, in addition to the \$180,000 excess of revenue over expenditure on printing operations and stationery transactions (recorded through the Queen's Printer's Advance Account, as noted above) amounted to \$1,121,000, of which sales of publications to the general public accounted for \$863,000.

The net result of all the transactions thus reported in various places in the Public Accounts was an excess of expenditure over income of \$2,166,000 for the year ended March 31, 1960. This, however, was without taking into consideration any charges for building maintenance, amortization of building cost, amortization of equipment (in lieu of purchase cost), interest on funds employed, etc.

145. *Board of Grain Commissioners.* This Board operates under the authority of the Canada Grain Act, c. 25, R.S., as amended, for the purpose of regulating the grain trade in Canada, and it provides inspection, weighing and other services to owners of grain.

Revenues of the Board, included as Department of Trade and Commerce revenues, totalled \$2,605,000 for the year ended March 31, 1960, as follows: inspection, \$1,674,000; weighing, \$851,000; and other revenues, \$80,000. Expenditure paid from parliamentary appropriations during the year totalled \$4,403,000, consisting of \$3,817,000 for salaries and \$586,000 for other operating expenses. The excess of expenditure over revenue was, therefore, \$1,798,000.

In 1951-52 there was an excess of revenue over expenditure paid from annual appropriations of \$108,000, and in 1952-53 there was a similar excess of \$351,000. In 1953-54 there was a comparatively small excess of expenditure over revenue of \$188,000—but each year since then there has been an excess of expenditure over revenue of more than \$1 million.

We feel that further consideration should be given to the advisability of revising the tariff of fees payable for services rendered by the Board, with a view to closing the gap between the cost of the services and the fees charged.

146. *Canadian Government Elevators.* The Canadian Government Elevators are operated by the Board of Grain Commissioners under the provisions of Section 166 of the Canada Grain Act and comprise five interior terminal elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton, Lethbridge and two terminal elevators located at Port Arthur and Prince Rupert.

The following is a summary of the elevator operations for the year ended March 31, 1960, as shown in the Operating Statement given in the Public Accounts, page AG-29:

Revenue:		
Storage	\$ 1,196,000	
Elevation	310,000	
Drying	229,000	
Cleaning	101,000	
Other	112,000	
	<hr/>	\$ 1,948,000
Expenditure:		
Salaries and wages	804,000	
Maintenance	446,000	
Other	303,000	
	<hr/>	1,553,000
Operating profit		395,000
Add: Miscellaneous revenue		9,000
Net Profit		<hr/> <hr/> \$ 404,000

The net profit of \$404,000 is without taking into consideration amortization of elevator construction costs, interest on the funds employed, etc.

147. *Operation of airports.* Ninety-two airports were in operation by the Department of Transport at the close of the year under review. The capital investment in these facilities totalled \$340,046,000, of which \$44,454,000 was added during 1959-60.

The following is a summary of the revenues for the year ended March 31, 1960 recorded as departmental revenues:

Aircraft landing fees:	
Domestic	\$ 1,804,000
Trans-border	510,000
Trans-oceanic	2,322,000
Other	10,000
	<hr/>
	\$ 4,646,000
Rentals:	
Hangar	211,000
Living quarters	398,000
Office, shop and garage space	612,000
Other	417,000
	<hr/>
	1,638,000
Concessions:	
Gasoline and oil	1,150,000
Other	697,000
	<hr/>
	1,847,000
Miscellaneous	886,000
	<hr/>
Total revenues	<u>\$ 9,017,000</u>

Charges to the parliamentary appropriation for "Airports and Other Ground Services—Operation and Maintenance" totalled \$16,678,000 for the year.

The excess of the expenditure (excluding new construction) on the operation of airways and airports over the revenues received, as thus reflected in the Department of Transport section of the Public Accounts, was therefore \$7,661,000 for the year under review. But this was without recording charges for amortization of airport construction costs, interest on funds employed or other costs (including portions of expenditure charged to general Air Services appropriations) which would have to be taken into consideration if it were desired to determine the actual net cost of operating the facilities.

148. In order that Parliament may gain a clear understanding of the true financial results of departmental operating activities, without disturbing the present basis of providing appropriations or of reporting expenditure charged thereto, consideration should be given to the inclusion, in a separate section of the Public Accounts, of financial statements of the various activities designed to reflect the operating results in a clear and

concise manner. Such operating statements could be adjusted to an accrual basis and would include charges (on a memorandum basis, in the case of non-cash charges) for amortization of building and equipment acquisition costs, interest on funds employed, services provided by other government departments, etc. A reconciliation could be prepared between the operating results reflected by each such statement and the cash results indicated by the related departmental revenues and charges to parliamentary appropriations. Balance sheets could then be prepared which, among other things, would indicate the value of the assets employed by the several activities at the year-end. If statements of this type were produced, the Auditor General would be prepared to examine and certify them.

Apart from their interest to Parliament each year in the Public Accounts, preparation of such statements annually would mean that they could be available at monthly or other short intervals, to the departmental managements responsible for the different operating activities, and as such they would be of considerable value to these managements in their internal administration. This has already been demonstrated in the case of airport operations where bi-monthly statements (which include charges for depreciation) are prepared on the accrual basis for administrative purposes throughout the year.

Special Statutory Audits and Examinations

149. In addition to the examinations of departmental accounts and the audits of the accounts of various Crown corporations, the following special audits and examinations were made by the Audit Office during the year in accordance with directions contained in various Statutes: Army Benevolent Fund, Canada Council, Exchange Fund Account, National Gallery of Canada, Public Printing and Stationery stores, The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children, Royal Canadian Mint stocks and Yukon Territorial Government.

150. *Army Benevolent Fund.* The accounts of this Fund were examined for the year ended March 31, 1960 in accordance with the requirement of Section 11 of the Army Benevolent Fund Act, c.10, R.S., and the relative report was addressed to the Members of the Army Benevolent Fund Board constituted by the Act. The annual report of the Board is required to be laid before Parliament by the Minister of Veterans Affairs.

The receipts of the Fund for the year ended March 31, 1960 amounted to \$230,000, comprising \$217,000 for interest on the balance on deposit with the Receiver General and \$12,000 for interest on investments held for the Fund, together with approximately \$1,000 for sundry receipts. The expenditures totalled \$548,000, consisting of \$480,000 of grants to or on behalf of World War II veterans and \$68,000 for service and administrative expenses. The last-mentioned amount was after applying a grant of \$18,000 from an appropriation of the Department of Veterans Affairs.

After absorbing the \$318,000 excess of disbursements over receipts, the balance at credit of the Fund at the close of the year under review was \$6,863,000.

151. *Canada Council.* The accounts and financial transactions of the Canada Council were audited for the year ended March 31, 1960, and the relative report was addressed to the Council and to the Prime Minister in accordance with the direction contained in Section 22 of the Canada Council Act, c.3, 1957. The annual report of the Council, containing the audit report, is required to be laid before Parliament under Section 23 of the Act.

Income earned on investments held for the Endowment Fund amounted to \$2,856,000 during the year under review. Expenditures totalled \$2,929,000, comprising \$2,512,000 for authorized grants and awards, \$354,000 for administration, \$34,000 for outlays made on behalf of the Canadian National Commission for UNESCO and \$29,000 for the Canada Council Train. After deducting the \$73,000 excess of expenditures over income during the year from an opening balance of \$570,000, there remained a surplus of \$497,000 available at the year-end for expenditure under Section 16 of the Act.

The following is a summary of the transactions relating to the University Capital Grants Fund for the year ended March 31, 1960:

Balance at April 1, 1959		\$ 42,433,000
Add:		
Interest earned on investments	\$ 1,967,000	
Less: Net loss on disposal of securities	458,000	
		<u>1,509,000</u>
		43,942,000
Deduct: Authorized grants made under Section 9 of the Act		<u>9,344,000</u>
Balance at March 31, 1960		<u>\$ 34,598,000</u>

152. *Exchange Fund Account.* The accounts of the Exchange Fund for its financial year ended December 31, 1959, were examined pursuant to the requirement of Section 27 of the Currency, Mint and Exchange Fund Act, c.315, R.S., and the relative report was addressed to the Minister of Finance in accordance with established practice. The section requires that a special certificate be given annually to Parliament and, in accordance with that requirement, it is certified that the transactions in connection with the Account for the year ended December 31, 1959 have been in accordance with the provisions of the Act, and that the records showed truly and clearly the state of the Account at the year-end. Section 26 of the Act requires that the Minister of Finance report annually to Parliament on the operations of the Account.

The following is a summary of the transactions of the Exchange Fund Account for its financial year ended December 31, 1959:

Balance at January 1, 1959		\$ 2,010,125,000
Deduct:		
Paid into the Consolidated Revenue Fund in respect of 1958 earnings	\$ 18,625,000	
Repayment of advances (net)	47,500,000	
		<hr/> 66,125,000
		<hr/> 1,944,000,000
Add:		
Earnings on investments for the year ended December 31, 1959 (to be paid into the Consolidated Revenue Fund)		25,513,000
		<hr/> 25,513,000
Balance at December 31, 1959		<hr/> <hr/> \$ 1,969,513,000

153. *National Gallery of Canada.* The accounts and financial statements of the Gallery for the year ended March 31, 1960 were examined in accordance with the requirement of Section 9 of the National Gallery Act, c.186, R.S. The annual report of the Board of Trustees, including the Auditor General's report, is required to be laid before Parliament by the Minister of Citizenship and Immigration.

The expenditures of the Gallery are largely met from annual parliamentary appropriations provided for the purpose. However, there is provision in the Act for a Special Operating Account to which may be credited money received by the Board of Trustees by way of donation, bequest or revenue, and out of which expenditures may be made additional to those paid from appropriations. There is also an account called the National Gallery Purchase Account to which are credited moneys appropriated by Parliament for the purpose of acquiring works of art, and to which are charged expenditures for the acquisition of such works.

The expenditures of the Gallery for the year under review totalled \$751,000, of which \$739,000 was provided from parliamentary appropriations, \$10,000 from the Special Operating Account and \$2,000 from the National Gallery Purchase Account. These expenditures comprised \$723,000 for operating expenses, \$27,000 for purchases of works of art, and \$1,000 for expenditures from trust funds.

Revenue amounting to \$27,000 consisting of sales of \$17,000, fees of \$8,000 and miscellaneous receipts of \$2,000 was credited to the Special Operating Account, which had a balance of \$31,000 at the year-end.

154. *Public Printing and Stationery stores.* Section 34 of the Public Printing and Stationery Act, c. 226, R.S., requires the Auditor General to "annually, or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied". During the year

under review, tests were made to establish that the controls exercised by the department with respect to stores were operating satisfactorily. In addition, we participated in the annual physical stocktaking made by departmental personnel. A report on the examination was addressed to the Secretary of State.

The stocks of stationery, printing materials and supplies held by the department at March 31, 1960 amounted to \$2,571,000, including: supplies, \$711,000; typewriter and office machine parts, \$109,000; and miscellaneous items, \$29,000 (on charge to the Stationery Branch), and: paper, \$470,000; work in process, \$333,000; printing and maintenance supplies, \$513,000; field unit stock, \$343,000; and miscellaneous items, \$63,000 (on charge to the Printing Branch).

155. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* This Fund was established on July 8, 1959 by the Queen Elizabeth II Canadian Research Fund Act, c.33, 1959, and the accounts of the Fund were audited in accordance with Section 14 of the Act. Section 15 requires that the annual report of the Board of Trustees, including the Auditor General's report, be laid before Parliament by the Prime Minister.

As provided by Section 4 of the Act, a sum of \$1,000,000 was paid into the Fund by the Minister of Finance. Interest earned on investments totalling \$14,000 and gifts by the public amounting to \$3,487 were received and credited to the Fund during the period ended March 31, 1960. After providing \$29,000 for awards authorized under Section 3 of the Act, a balance of \$988,000 remained at the credit of the Fund at March 31, 1960.

156. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenues and expenditures are accordingly audited as part of the departmental revenues and expenditures. However, Section 20 of the Currency, Mint and Exchange Fund Act, c.315, R.S., requires that the Auditor General shall "at least once in each year inspect the store of bullion and coin at the Mint". Such an inspection was made during the year under review and a report thereon is being addressed to the Minister of Finance.

The stocks of bullion and metals at cost, and coin at face value, held by the Mint at March 31, 1960 amounted to \$11,503,000, comprising: gold, \$4,393,000; silver, \$6,622,000; nickel, \$193,000; bronze, \$290,000; and steel, \$5,000.

157. *Yukon Territorial Government.* The accounts relating to the receipt and expenditure of Yukon Territorial Funds and to expenditures from parliamentary appropriations for the Territory were examined for the year ended March 31, 1960 in accordance with the requirement of Section 26 of the Yukon Act, c.53, 1952-53. An audit report is being addressed to the Commissioner in Council of the Yukon Territory, with a copy being forwarded to the Minister of Northern Affairs and National Resources, in accordance with established practice.

The revenues of the Yukon Territorial Government for the year ended March 31, 1960 totalled \$2,456,000, including: liquor profits, \$808,000; tax revenue, \$535,000; federal subsidies and grants, \$458,000; school attendance fees, \$194,000; and licence revenues, \$171,000. Net expenditures, after offsetting recoveries, totalled \$2,671,000, including: projects classed as "capital", \$902,000; education, \$632,000; health and welfare, \$343,000; roads, bridges and public works, \$328,000; and municipal and town administration, \$206,000. The excess of expenditures over revenues for the year was \$215,000. Loans payable to the Government of Canada at March 31, 1960 amounted to \$2,281,000, a decrease of \$106,000 in the year.

* * *

The past year has seen the retirement of two of my Audit Supervisors in the persons of Mr. B. R. King and Mr. W. H. Casselman. Mr. King joined the staff in 1924 and retired on May 16, 1960 while Mr. Casselman retired on October 18, 1960 after 45 years' service. Throughout their long periods of service with the Audit Office they maintained excellent working relationships with the various departments and were held in high regard by all members of our staff. We wish them much happiness in their well earned retirement.

In concluding this report, I would like to record my appreciation to all members of the staff of the Audit Office for their loyalty and devotion to duty during the past year, and in particular to Mr. Ian Stevenson, the Assistant Auditor General, and to my Audit Supervisors, Mr. B. A. Millar, Mr. G. R. Long, Mr. A. B. Stokes, Mr. D. A. Smith and Mr. J. R. Douglas.

A. M. HENDERSON,

Auditor General of Canada.

November 14, 1960.

APPENDICES

Statement of Expenditure and Revenue for the Fiscal Year ended March 31, 1960..	Appendix 1
Statement of Assets and Liabilities as at March 31, 1960	Appendix 2
Summary of Appropriations, Expenditure and Unexpended Balances, by Departments, for the year ended March 31, 1960	Appendix 3
Summary of Expenditure, by Standard Objects, for the year ended March 31, 1960, with Comparative Figures for the Preceding Fiscal Year	Appendix 4
Summary of Revenue, by Departments, for the year ended March 31, 1960	Appendix 5

THE GOVERNMENT

STATEMENT OF EXPENDITURE AND REVENUE FOR

(with comparative figures for

EXPENDITURE

	Fiscal year ended	
	March 31, 1960	March 31, 1959
Agriculture.....	\$ 181,389,595	\$ 165,841,962
Atomic Energy.....	30,114,125	26,136,051
Auditor General's Office.....	866,879	826,681
Board of Broadcast Governors.....	218,652	46,833
Canadian Broadcasting Corporation.....	63,945,994	62,017,601
Chief Electoral Officer.....	259,599	3,221,123
Citizenship and Immigration.....	54,916,725	52,843,669
Civil Service Commission.....	3,654,664	3,511,558
Defence Production.....	17,600,214	13,843,622
External Affairs.....	96,895,469	75,486,493
Finance—		
Public debt charges.....	783,462,191	648,026,486
Tax-sharing, subsidy and other payments to provinces.....	518,900,813	467,006,053
Other expenditure.....	117,792,124	113,172,742
	1,420,155,128	1,228,205,281
Fisheries.....	19,880,914	17,506,475
Governor General and Lieutenant-Governors.....	421,083	412,469
Insurance.....	1,237,533	1,224,160
Justice.....	27,845,868	24,345,475
Labour.....	102,885,123	86,755,801
Legislation.....	7,669,237	7,626,868
Mines and Technical Surveys.....	54,432,381	43,788,537
National Defence—		
Royal Canadian Navy.....	255,835,374	235,520,514
Canadian Army.....	400,818,599	393,191,901
Royal Canadian Air Force.....	728,442,093	637,526,704
Defence research and development.....	39,183,489	74,359,663
Other expenditure.....	90,624,777	84,141,977
	1,514,904,332	1,424,740,759
National Film Board.....	4,555,417	4,258,905
National Gallery.....	739,148	646,433
National Health and Welfare—		
Family allowances.....	491,214,359	474,787,068
Other expenditure.....	327,156,553	398,130,073
	818,370,912	872,917,141
National Research Council.....	31,501,387	25,405,644
National Revenue.....	68,696,069	68,787,837
Northern Affairs and National Resources.....	81,111,576	65,176,832
Post Office.....	165,792,340	157,803,478
Privy Council.....	1,417,903	1,071,810
Public Archives and National Library.....	745,329	720,044
Public Printing and Stationery.....	3,466,734	3,451,428
Public Works.....	217,876,413	226,061,039
Royal Canadian Mounted Police.....	52,444,264	51,734,621
Secretary of State.....	4,655,356	4,364,883
Trade and Commerce.....	67,442,840	65,636,032
Transport.....	296,446,971	288,837,764
Veterans Affairs—		
Pensions.....	149,656,053	150,725,904
Other expenditure.....	138,648,826	138,058,320
	288,304,879	288,784,224
Total expenditure.....	5,702,861,053	5,364,039,533
Budgetary surplus or deficit (—).....	—413,109,844	—609,316,844
	5,289,751,209	4,754,722,689

NOTE—At the beginning of Part II a summarized statement of expenditure by standard objects and departments for 1959-60 is presented.

H. R. BALLS,
Comptroller of the Treasury.

K. W. TAYLOR,
Deputy Minister of Finance.

(The statements referred to in the footnotes are to be found at pages 4 to 11 of Part II of the Public Accounts.)

APPENDIX 1

(Auditor General's Report)

OF CANADA

THE FISCAL YEAR ENDED MARCH 31, 1960

the preceding fiscal year)

REVENUE

	Fiscal year ended	
	March 31, 1960	March 31, 1959
Tax revenues—		
Income tax—		
Personal ⁽¹⁾	\$1,566,643,704	\$1,353,499,314
Corporation ⁽¹⁾	1,142,879,702	1,020,550,164
On dividends, interest, etc., going abroad.....	73,353,360	61,213,291
Excise taxes—		
Sales tax ⁽¹⁾	732,658,330	694,490,787
Other.....	286,567,808	240,623,778
Customs duties.....	525,722,158	486,508,581
Excise duties.....	335,207,406	316,744,269
Estate tax ⁽²⁾	88,430,705	72,535,140
Tax on insurance premiums.....	18,180	22,602
Miscellaneous.....	858,585	1,190,600
	<u>4,752,339,938</u>	<u>4,247,378,526</u>
Non-tax revenues—		
Return on investments.....	239,653,687	221,203,583
Post Office—net postal revenue.....	167,562,354	157,540,804
Refunds of previous years' expenditure.....	40,630,026	37,663,439
Services and service fees.....	31,298,623	27,195,002
Proceeds from sales.....	21,891,546	23,521,331
Privileges, licences and permits.....	24,969,835	27,883,455
Bullion and coinage.....	5,429,778	4,454,630
Premium, discount and exchange.....		1,017,858
Miscellaneous.....	5,975,422	6,864,061
	<u>537,411,271</u>	<u>507,344,163</u>

⁽¹⁾ Excluding tax credited to the old age security fund—

	1959-60	1958-59
Personal income tax....	185,550,000	146,350,000
Corporation income tax.	91,336,000	55,328,000
Sales tax.....	270,000,055	173,622,697

⁽²⁾ Includes Succession Duties.

Total revenue.....	5,289,751,209	4,754,722,689
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NOTE—At the beginning of Part II a summarized statement of revenue by main classifications and departments for 1959-60 is presented.

Auditor General's Certificate

The above statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations that I have required, and I certify that the statement is in agreement with the accounts maintained by the Department of Finance, and is, in my opinion, correct, subject to the comments in my report to the House of Commons.

A. M. HENDERSON,
Auditor General.

THE GOVERNMENT

STATEMENT OF ASSETS AND

(with comparative figures)

ASSETS

	March 31, 1960	March 31, 1959	Net increase or decrease (-) during 1959-60
1. Current assets—			
(a) Cash, schedule A, page 102.....	\$ 565,436,461	\$ 640,459,071	\$ -75,022,610
(b) Departmental working capital advances and revolving funds, schedule B, page 102.....	196,010,004	151,982,104	44,027,900
(c) Securities held for the securities investment account, at amortized cost.....	77,862,926	98,030,754	-20,167,828
(d) Other current assets, schedule C, page 103.....	22,837,203	20,471,784	2,365,419
	862,146,594	910,943,713	-48,797,119
2. Advances to the exchange fund account (value of investments from advances on basis of closing exchange rates: March 31, 1960, \$1,746,305,383; March 31, 1959, \$1,798,268,160).....	1,960,000,000	1,995,000,000	-35,000,000
3. Sinking fund and other investments held for retirement of unmatured debt, schedule D, page 103.....	85,272,230	83,214,185	2,058,045
4. Loans to, and investments in, Crown corporations, schedule E, page 104.....	3,446,661,546	3,271,060,958	175,600,588
5. Loans to national governments, schedule F, page 105.....	1,414,527,922	1,448,960,511	-34,432,589
6. Other loans and investments, schedule G, page 105—			
(a) Subscriptions to capital of, and working capital advances and loans to, international organizations.....	605,174,878	369,916,415	235,258,463
(b) Loans to provincial governments.....	90,396,788	96,338,853	-5,942,065
(c) Veterans land act advances (less reserve for conditional benefits).....	151,626,032	151,000,010	626,022
(d) Miscellaneous.....	87,273,714	65,800,331	21,473,383
	934,471,412	683,055,609	251,415,803
7. Securities held in trust, schedule H, page 107.....	30,611,723	20,742,062	9,869,661
8. Deferred charges—			
Unamortized loan flotation costs, appendix No. 7, page 130.....	150,993,027	147,430,776	3,562,251
9. Unamortized portion of actuarial deficiencies—			
Canadian forces superannuation account.....	326,300,000	326,300,000
Public service superannuation account.....	139,000,000	139,000,000
	465,300,000	465,300,000
10. Suspense accounts, schedule I, page 108.....	33,300	2,465	30,835
11. Capital assets.....	1	1
12. Inactive loans and investments, schedule J, page 108.....	93,539,317	92,215,718	1,323,599
TOTAL ASSETS.....	9,443,557,072	9,117,925,998	325,631,074
13. Less: Reserve for losses on realization of assets.....	-546,384,065	-546,384,065
NET ASSETS.....	8,897,173,007	8,571,541,933	325,631,074
14. Net debt, represented by excess of liabilities over assets, schedule K, page 108.....	12,089,194,003	11,678,389,860	410,804,143
	20,986,367,010	20,249,931,793	736,435,217

NOTE The increase in net debt of \$410,804,143 reflects the budgetary deficit of \$413,109,844 less an adjustment of \$2,305,701 in respect of prior years' transactions.

H. R. BALLS,
Comptroller of the Treasury.

K. W. TAYLOR,
Deputy Minister of Finance.

(The schedules referred to in the above Statement are to be found in the Public Accounts at the pages indicated.)

APPENDIX 2

(Auditor General's Report)

OF CANADA

LIABILITIES AS AT MARCH 31, 1960

as at March 31, 1959)

LIABILITIES

	March 31, 1960	March 31, 1959	Net increase or decrease (—) during 1959-60
15. Current and demand liabilities, schedule L, page 109—			
(a) Outstanding treasury cheques.....	\$ 228,768,468	\$ 247,305,080	\$ -18,536,612
(b) Accounts payable (that portion paid in April of the next following fiscal year).....	245,099,099	256,401,698	-11,302,599
(c) Non-interest bearing notes payable to the international monetary fund and the international bank for recon- struction and development.....	381,828,500	205,828,500	176,000,000
(d) Matured debt outstanding.....	20,067,997	28,743,983	-8,675,986
(e) Interest due and outstanding.....	57,690,734	56,214,613	1,476,121
(f) Interest accrued.....	137,622,473	124,892,689	12,729,784
(g) Other current liabilities.....	27,979,624	33,173,039	-5,193,415
	<i>1,099,056,895</i>	<i>952,559,602</i>	<i>146,497,293</i>
16. Deposit and trust accounts, schedule M, page 110.....	242,673,334	237,917,457	4,755,877
17. Annuity, insurance and pension accounts, schedule N, page 113..	3,565,375,649	3,301,861,032	263,514,617
18. Undisbursed balances of appropriations to special accounts, schedule O, page 113.....	96,619,964	83,386,633	13,233,331
19. Deferred credits, schedule P, page 113.....	83,961,190	81,429,095	2,532,095
20. Suspense accounts, schedule Q, page 114.....	8,528,175	18,664,471	-10,136,296
21. Unmatured debt, schedule R, page 115—			
(a) Bonds.....	13,765,151,803	13,979,113,503	-213,961,700
(b) Treasury bills.....	2,125,000,000	1,595,000,000	530,000,000
	<i>15,890,151,803</i>	<i>15,574,113,503</i>	<i>316,038,300</i>
<hr/>			
TOTAL LIABILITIES.....	20,986,367,010	20,249,931,793	736,435,217

NOTE—Indirect or contingent liabilities consisting of securities guaranteed by, or other guarantees given by the Government of Canada, are listed on page 117.

Auditor General's Certificate

The above statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations that I have required, and I certify that the statement is in agreement with the accounts maintained by the Department of Finance, and is, in my opinion, correct, subject to the comments in my report to the House of Commons.

A. M. HENDERSON,
Auditor General.

APPENDIX 3

(Auditor General's Report)

SUMMARY OF APPROPRIATIONS, EXPENDITURE AND UNEXPENDED BALANCES BY DEPARTMENTS FOR THE YEAR ENDED MARCH 31, 1960

Section	Department	Appropriations	Expenditure	Unexpended Balances	
				Lapsed	Carried Forward ⁽¹⁾
		\$	\$	\$	\$
A	Agriculture.....	192,087,514	181,389,595	10,697,919	
B	Atomic Energy.....	32,092,300	30,114,125	1,978,175	
C	Auditor General's Office.....	883,502	866,879	16,623	
D	Board of Broadcast Governors.....	223,889	218,652	5,237	
E	Canadian Broadcasting Corporation.....	69,641,975	63,945,994	5,695,981	
F	Office of the Chief Electoral Officer.....	265,599	259,599	6,000	
G	Citizenship and Immigration.....	57,663,579	54,916,725	2,746,854	
H	Civil Service Commission.....	3,765,961	3,654,664	111,297	
I	Defence Production.....	23,888,095	17,600,214	6,287,881	
J	External Affairs.....	112,196,264	96,895,469	14,810,698	490,097
K	Finance.....	1,433,876,465	1,420,155,128	13,721,337	
L	Fisheries.....	21,645,789	19,880,914	1,764,875	
M	Governor General and Lieutenant-Governors.....	437,015	421,083	15,932	
N	Insurance.....	1,283,703	1,237,533	46,170	
O	Justice.....	8,252,620	8,126,216	126,404	
O	Office of the Commissioner of Penitentiaries.....	20,868,484	19,719,652	1,148,832	
P	Labour.....	128,094,306	102,885,123	10,583,818	14,625,365
Q	Legislation.....	7,781,304	7,669,237	112,067	
R	Mines and Technical Surveys.....	57,341,868	54,432,381	2,909,487	
S	National Defence.....	1,680,183,608	1,514,904,332	165,279,276	
T	National Film Board.....	4,555,736	4,555,417	319	
U	National Gallery of Canada.....	914,640	739,148	175,492	
V	National Health and Welfare.....	824,652,626	818,370,912	6,281,714	
W	National Research Council.....	31,733,580	31,501,387	232,193	
X	National Revenue.....	72,612,972	68,696,069	3,916,903	
Y	Northern Affairs and National Resources.....	89,998,683	81,111,576	8,887,107	
Z	Post Office.....	168,709,995	165,792,340	2,917,655	
AA	Privy Council.....	1,628,143	1,417,903	210,240	
AB	Public Archives and National Library.....	771,149	745,329	25,820	
AC	Public Printing and Stationery.....	3,535,946	3,466,734	69,212	
AD	Public Works.....	239,748,745	217,876,413	21,872,332	
AE	Royal Canadian Mounted Police.....	54,508,381	52,444,264	2,064,117	
AF	Secretary of State.....	4,737,852	4,655,356	82,496	
AG	Trade and Commerce.....	68,546,822	67,442,840	1,103,982	
AH	Transport.....	317,267,346	287,768,882	29,498,464	
AH	Canadian Maritime Commission.....	6,856,842	6,724,748	132,094	
AH	National Harbours Board.....	4,222,464	1,953,341	2,269,123	
AI	Veterans Affairs.....	298,560,310	288,304,879	10,255,431	
		6,046,036,072	5,702,861,053	328,059,557	15,115,462

⁽¹⁾ Available for expenditure in 1960-61.

H. R. BALLS,
Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the expenditures which are included in the above statement have been examined under my direction and, subject to the comments in my report to the House of Commons, made in accordance with the provisions of the Financial Administration Act, I certify that, in my opinion, the statement is correct.

A. M. HENDERSON,
Auditor General.

(The sections referred to in the above Summary are to be found in the Public Accounts.)

APPENDIX 4

(Auditor General's Report)

SUMMARY OF EXPENDITURE BY STANDARD OBJECTS FOR THE YEAR ENDED MARCH 31, 1960 WITH COMPARATIVE FIGURES FOR THE PRECEDING FISCAL YEAR

(in millions of dollars)

	1959-60	1958-59	Increase or Decrease (-)
Civil salaries and wages.....	\$ 710.4	\$ 693.9	\$ 16.5
Civilian allowances.....	14.1	11.1	3.0
Pay and allowances, defence forces and R.C.M. Police.....	498.1	491.2	6.9
Professional and special services.....	89.0	93.1	— 4.1
Travelling and removal expenses.....	62.1	58.2	3.9
Freight, express and cartage.....	12.6	11.9	.7
Postage.....	5.7	5.7	.0
Telephones, telegrams and other communication services.....	17.5	16.8	.7
Publication of departmental reports and other material.....	8.6	7.8	.8
Exhibits, advertising, films, broadcasting and displays.....	11.8	11.8	.0
Office stationery, supplies, equipment and furnishings.....	22.2	19.4	2.8
Materials and supplies.....	162.5	180.6	— 18.1
Buildings and works, including land—			
Construction or acquisition.....	344.6	330.4	14.2
Repairs and upkeep.....	49.8	50.6	— .8
Rentals.....	15.9	16.1	— .2
Equipment—			
Construction or acquisition.....	335.9	472.2*	—136.3
Repairs and upkeep.....	162.5	158.5	4.0
Rentals.....	5.1	4.2	.9
Municipal or public utility services.....	48.5	45.0	3.5
Contributions, grants, subsidies, etc. not included elsewhere.....	479.6	462.2	17.4
Pensions, superannuation and other benefits.....	109.7	105.7	4.0
All other expenditures (other than special categories).....	66.9	250.5	—183.6
Interest on public debt, etc.....	783.5	648.0	135.5
Subsidies and special payments to the Provinces.....	518.9	467.0	51.9
Family allowances payments.....	491.2	474.8	16.4
Old age assistance, blind persons and disabled persons allowances and unemployment assistance.....	90.8	73.7	17.1
Veterans' disability pensions, etc.....	149.7	150.7	— 1.0
Other payments to veterans and dependents.....	70.2	67.4	2.8
Government's contribution to the Unemployment Insurance Fund.....	45.7	37.1	8.6
Hospital insurance and general health grants.....	196.6	100.6	96.0
Trans-Canada highway contributions.....	53.3	51.1	2.2
Movement of mail by land, air and water.....	59.3	55.6	3.7
Deficits—Government-owned enterprises.....	52.1	60.7	— 8.6
	\$ 5,744.4	\$ 5,683.6	\$ 60.8
Less: Expenditure recovered.....	41.5	319.6*	—278.1
Net Total Expenditure.....	\$ 5,702.9	\$ 5,364.0	\$ 338.9

*For comparative purposes, the \$212 million of defence equipment which was charged to the National Defence Equipment Account in 1958-59 is included in the \$472.2 million shown for construction or acquisition of equipment in that year, a corresponding increase being made in the amount shown for "expenditure recovered".

AUDITOR GENERAL'S REPORT

APPENDIX 5
(Auditor General's Report)

SUMMARY OF REVENUE BY DEPARTMENTS FOR THE YEAR ENDED MARCH 31, 1960

Section	Department	Tax Revenue	Non-Tax Revenue	Total
		\$	\$	\$
A	Agriculture.....		4,589,467	4,589,467
B	Atomic Energy.....		217,890	217,890
C	Auditor General's Office.....		4,719	4,719
D	Board of Broadcast Governors.....		1,119	1,119
E	Canadian Broadcasting Corporation.....		3,324,062	3,324,062
F	Office of the Chief Electoral Officer.....		400	400
G	Citizenship and Immigration.....		1,565,281	1,565,281
H	Civil Service Commission.....		149	149
I	Defence Production.....		14,842,950	14,842,950
J	External Affairs.....		2,697,458	2,697,458
K	Finance.....		188,430,598	188,430,598
L	Fisheries.....		832,334	832,334
N	Insurance.....	18,179	631,883	650,062
O	Justice.....		194,059	194,059
O	Office of the Commissioner of Penitentiaries.....		724,268	724,268
P	Labour.....		169,138	169,138
Q	Legislation.....		145,921	145,921
R	Mines and Technical Surveys.....		923,202	923,202
S	National Defence.....		22,797,471	22,797,471
T	National Film Board.....		156,792	156,792
U	National Gallery of Canada.....		893	893
V	National Health and Welfare.....		3,197,185	3,197,185
W	National Research Council.....		22,752	22,752
X	National Revenue.....	4,751,463,174	1,566,557	4,753,029,731
Y	Northern Affairs and National Resources.....	2,515	6,558,784	6,561,299
Z	Post Office.....		167,629,053	167,629,053
AA	Privy Council.....		5,568	5,568
AB	Public Archives and National Library.....		7,938	7,938
AC	Public Printing and Stationery.....		1,300,711	1,300,711
AD	Public Works.....		51,671,476	51,671,476
AE	Royal Canadian Mounted Police.....		11,731,231	11,731,231
AF	Secretary of State.....		2,697,015	2,697,015
AG	Trade and Commerce.....	856,070	16,486,723	17,342,793
AH	Transport.....		24,559,665	24,559,665
AI	Veterans Affairs.....		7,726,559	7,726,559
		4,752,339,938	537,411,271	5,289,751,209

H. R. BALLS,
*Comptroller of the Treasury.**Auditor General's Certificate*

The accounts relating to the revenues which are included in the above statement have been examined under my direction and, subject to the comments in my report to the House of Commons, made in accordance with the provisions of the Financial Administration Act, I certify that, in my opinion, the statement is correct.

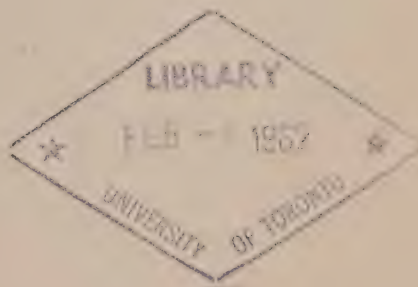
A. M. HENDERSON,
Auditor General.

(The sections referred to in the above Summary are to be found in the Public Accounts.)



CANADA

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS
for the
FISCAL YEAR ENDED MARCH 31
1961





CANADA

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS
for the
FISCAL YEAR ENDED MARCH 31
1961

ROGER DUHAMEL, F.R.S.C.
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THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act.

2. In accordance with the requirement of section 70 of the Act, a report is now made to the House of Commons on the results of the audit examinations for the year ended March 31, 1961. Section 70 reads:

"The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
 - (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
 - (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
 - (d) an expenditure was not authorized or was not properly vouched or certified,
 - (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
 - (f) a special warrant authorized the payment of any money,
- and to any other case that the Auditor General considers should be brought to the notice of the House of Commons."

3. The Statement of Expenditure and Revenue for the year ended March 31, 1961 and the Statement of Assets and Liabilities as at that date, prepared by the Department of Finance for inclusion in the Public Accounts, have been examined and certified by me as required by section 69 of the Financial Administration Act, subject to my comments in this report. Copies of these financial statements are attached hereto as Appendices 1 and 2, respectively. The Summary of Appropriations, Expenditure and Unexpended Balances, by Departments, and the Summary of Revenue, by Main Classifications and Departments, as included in the Public Accounts, have also been examined and certified, and copies are attached as Appendices 3 and 4, respectively.

4. The report contains explanatory notes in paragraphs 29 to 45 regarding the major changes between the 1960-61 and 1959-60 expenditures. There is also submitted, as Appendix 5, a Summary of Expenditure by Standard Objects for the year ended March 31, 1961, with comparable figures for the preceding fiscal year.

5. It will be noted from the Summary of Expenditure by Standard Objects (Appendix 5) that the three largest items of expenditure continue to be civil salaries and wages, interest on the public debt, and subsidies and special payments to the provinces. Together they totalled \$2,118 million and represented over one-third of the net total expenditure for the year. Two of these items, namely, interest on the public debt and subsidies and special payments to the provinces, are the subject of detailed statements in the Public Accounts, and a summarized listing is given in this report (Appendix 6)

showing the numbers of employees authorized for the public service by departments, Crown corporations and other instrumentalities at the close of the fiscal year under review, in comparison with the numbers at the close of the preceding year, prepared on the basis explained in the footnotes to the appendix.

Scope of the Audit

6. Our examinations of the departmental accounts for the year ended March 31, 1961 were made in conformity with section 67 of the Financial Administration Act, which reads:

"The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion

- (a) the accounts have been faithfully and properly kept,
- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
- (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property."

7. During the year the Audit Office has continued the comprehensive audit approach outlined in my report to the House of Commons last year. The examinations were conducted on a test basis in accordance with past practice, the extent of the tests varying according to the nature of the transactions and the effectiveness of the internal control. They were made in accordance with generally accepted auditing standards and included a general review of the accounting procedures and system of internal control together with such tests of the accounting records and other supporting evidence as were considered necessary in the circumstances.

The attention of responsible administrative and accounting officers was directed to transactions which, in the Audit Office view, were not in harmony with annual parliamentary appropriations or continuing statutory financial directions, or which lacked conformity with Executive orders or regulations.

Our examinations extended to all departments, Crown corporations and other agencies of the Government of Canada, excepting those listed in paragraph 121, whose accounts were examined by other auditors.

8. The accounts relating to the receipts and disbursements of the Audit Office were examined by an officer of the public service nominated for the purpose by the Treasury Board, as required by section 75 of the Financial Administration Act.

9. During the course of their work, members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown

corporations and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I take pleasure in expressing my appreciation for the co-operation thus extended by departmental and Treasury officers and by the administrative and accounting officers of Crown corporations and other agencies.

10. The Audit Office has addressed detailed reports to the executive boards of Crown corporations and other agencies covering the results of its examinations during the past year. These reports outline the scope of the audit, give a broad summary of the results of operations for the financial year in comparison with previous years, and make comments and offer suggestions regarding weaknesses in internal control and other matters noted during the course of the audit. It is the intention to extend the issuance of detailed reports in due course to the heads of departments.

Internal Financial Control

11. There are three basic requirements for an effective system of internal financial control in any organization, namely, accurate costs, effective periodic financial statements and appropriate provision for internal auditing. On the matter of accurate costs, I referred in my report last year to the fact that under existing governmental practice the appropriations for each department provide only for the cash estimated to be required during the fiscal year to discharge the direct costs of the department. They do not ordinarily provide for charges paid for its account by other departments. I expressed the hope that early consideration would be given to remedying the resultant anomalies and inconsistencies in order that the accounts relating to parliamentary appropriations may more accurately record the expenditures incurred for the various services.

This situation was discussed by the Public Accounts Committee early this year and consideration has been given to the problem by the Department of Finance with the result that the annual costs of certain major common services have been estimated and, according to my understanding, will be shown in memorandum form for the first time in the Main Estimates for 1962-63. I am hopeful that this beginning will in due course lead to the provision for all significant cost factors in the individual appropriations, and to the inclusion of the actual costs in the accounts of the responsible departments.

12. Effective periodic financial statements are essential to the study and control of costs. This point was stressed in my report last year because government departments and many of the Crown corporations and other agencies do not possess the profit incentive to control costs that exists in private enterprise, and must therefore develop their own efficiency yardsticks against which to measure their costs.

The Crown corporations keep their books along commercial lines and generally follow commercial practices in preparing their annual financial statements. Many of them also make good use of effective monthly or other periodic statements in the control of their costs and in the development of cost consciousness. In this way actual revenues

and expenditures are compared against either budget projections based upon known or anticipated income, or actual performance in a comparable prior period, or both. While determination of effective efficiency yardsticks for such comparisons may be difficult in some expenditure areas, I believe that wider adoption of this simple comparison technique by departments and other agencies would result in bringing expenditures under closer scrutiny, thereby bringing about a more effective administrative control of costs.

13. Internal auditing is a method of providing for independent examinations within an agency, and functions by reviewing, appraising and reporting to management on the effectiveness of other controls. Consequently, the external auditor is at all times concerned with the competence and scope of internal auditing work that he finds being carried out in the agency. While many of the larger departments and Crown corporations maintain their own internal audit staffs, a number have not taken steps along these lines even where the circumstances appear to justify it.

We are continuing to give this matter close attention, including the question of cost audits of expenditure incurred under contracts entered into by the Department of Defence Production. While we understand that efforts are being made to bring these audits up to date, the backlog has reached proportions which are of concern to the Department and to the suppliers involved.

The Public Accounts

14. I stated in my report last year that as the Public Accounts constitutes in effect Canada's annual financial report to its shareholders—the general public—it should conform to the highest standards of financial reporting in the country and be presented in a clear and concise manner without being encumbered with unnecessary detail.

Attention was given to this problem by the Public Accounts Committee, which, in its Second Report, 1961, recommended, among other things, that Volume I of the Public Accounts be divided into two volumes in future, the first to contain mainly the summary report and financial statements and the second mainly details of expenditures and revenues.

Form of the Estimates

15. In my report last year I recommended that consideration be given to the form of Estimates presentation with a view to providing more meaningful information, and I listed four examples of improvements which I felt illustrated the point. The form of the annual Estimates is important from the accounting point of view because it determines in large measure the manner in which the subsequent accounting for expenditures is maintained and reported in the Public Accounts. This in turn is important to the Auditor General because of his responsibilities to Parliament.

A memorandum prepared by the staff of the Treasury Board and placed before the Public Accounts Committee on April 19, 1961 set forth several possible improvements

which might be made in future presentations of the Estimates. These were considered by the Public Accounts Committee and, in its Fourth Report, it indicated its approval of certain of the suggested improvements. The Committee recognized that there are other possible changes in the form of the Estimates, some of them of a fundamental nature, and recommended that these be considered early in the new year.

16. Expenditures of public funds at the level at which they exist today are of such importance to the Canadian economy that it is essential that the Estimates be presented to Parliament in the clearest and simplest manner possible. I do not believe the same case can be made for eliminating detailed information from the Estimates as from the Public Accounts. It seems to me essential to have what might be described as a maximum of information, well set out, having to do with the proposed spending. The making of more information available might well be of great assistance to Parliament: for example, the inclusion of the operating and capital budgets of Crown corporations and other agencies.

Crown Corporations

17. In the course of its meetings during the past two years, the Public Accounts Committee devoted a significant portion of the time to enquiring into the operations of selected Crown corporations.

In its Third Report, 1960, the Committee referred to the early history of Crown corporations in Canada, mentioning, however, that the real growth of the Crown corporation idea was during the Second World War "when it was necessary for the Government to accomplish a lot in a hurry and upwards of forty corporations were in existence at one time". The report went on to state that:

"The time has come for a reappraisal of the position of Crown corporations in our national setup. Circumstances have changed; personnel has altered; and public policy is now more directly involved in the activities of these public corporations than was the case during the two World Wars."

The following comment was included in the Committee's Fifth Report, 1961:

"The Committee is impressed by the fact that while Crown corporations are similar to government departments in that the funds of both are public funds, the conduct of Crown corporations along commercial lines permits them a much freer hand in the management of their affairs, particularly in the spending of public funds in their charge. While recognizing that the high standards of the Canadian public service apply in equal measure to the officers and employees of Crown corporations, the fact remains that the efficiency of their managements depends in large measure on the competence of their boards of directors and the relationship of each with the responsible Minister."

together with the following comment:

"The Committee was glad to be informed by the Auditor General that he intends to include in his future reports to the House of Commons more detailed information covering the financial operations, and related data, of Crown corporations."

18. In the Crown corporations section of this report, more detailed information is given regarding the Crown corporations audited by the Auditor General. The outline given for each corporation includes a brief description of the corporation, a summary of the Crown's equity, noting any change during the year, and a summary of the operations for the financial year in comparison with the preceding year, together with explanations of the more significant variations. Particulars are also given regarding other matters which it is felt may be of interest to the House of Commons.

19. In our examinations of the accounts of the corporations subject to audit by the Auditor General, we were, in general, impressed by the conscientious and efficient manner in which their operations were being conducted.

20. The Crown corporations represent a large investment of public funds. It will be noted that the amount shown in the Government's Statement of Assets and Liabilities as at March 31, 1961 (Appendix 2) for the item "loans to and investments in Crown corporations" was \$3,627,733,000. A listing of the balances making up this total is given in paragraph 93, in comparison with the corresponding balances at the close of the two preceding fiscal years.

The following summary compares the number of Crown corporations and other similar instrumentalities in which direct investment was made and recorded in the annual statements of assets and liabilities at the close of the fiscal years 1939-40, 1949-50, 1959-60 and at the close of the year under review:

<u>Year ended March 31</u>	<u>No. of corporations*</u>	<u>Investment</u>
1940	10 (3)	\$ 183,111,000
1950	22 (6)	1,171,789,000
1960	30 (10)	3,446,662,000
1961	30 (10)	3,627,733,000

* Of the numbers of Crown corporations shown, those in parentheses involved no direct investment as they were financed out of parliamentary appropriations or were subsidiaries of corporations in which the direct investments were made.

In considering the above table, it will be noted from the listing given in paragraph 93 that the March 31, 1961 figure of \$3,627,733,000 includes \$1,510,711,000 for advances to the Central Mortgage and Housing Corporation and \$1,092,590,000 for advances to the Canadian National Railways.

The income from loans to and investments in the Crown corporations during the past three fiscal years is included, where significant, in the table given in paragraph 51.

21. On the operations side, a large segment of public business is undertaken by means of Crown corporations who employ the services of a significant portion of the total of public service employees. The summary of employees authorized for the public service, referred to in paragraph 5 and given as Appendix 6 to this report, indicates that of the total of 330,730 employees in March 1961, 135,421 were employed by the Crown corporations or similar instrumentalities.

22. The Crown corporations are subject to broad directions contained in the Financial Administration Act and also, in some cases, to provisions of the special Acts by which they were established, as well as being generally subject to direction by the responsible Ministers in matters involving important policy decisions. The Financial Administration Act requires that they submit capital budgets for approval by the Governor in Council on the recommendation of the responsible Minister and the Minister of Finance, and that these be tabled in Parliament. There is, however, no requirement similarly to table annual operating budgets. Annual reports, including financial statements and related audit reports, are required to be tabled in the House of Commons by the responsible Ministers.

The Crown corporations are free to conduct the operations for which they are responsible in accordance with commercial corporate practice, while at the same time following practices and procedures designed to safeguard fully the public moneys they are handling. They maintain their accounting systems on the accrual basis and their financial statements reflect all the costs incurred. They are not subject to the Civil Service Commission or to Executive regulations applicable to government departments—although in some cases these regulations are made applicable to certain designated corporations. Generally speaking, day-to-day operations are carried on under the exclusive direction of managements operating along corporate organizational lines and reporting to executive boards appointed by the Governor in Council, or, in some cases, by the responsible Ministers.

23. The Auditor General is the auditor of 23 of the 30 Crown corporations and similar public instrumentalities listed in paragraphs 120 and 121 of this report, having been so designated under the special or general Acts under which they were established or incorporated. The remaining seven are audited by private auditors. Subsection (1) of section 77 of the Financial Administration Act provides that where no statutory provision is made for the appointment of an auditor to audit the accounts and financial transactions of a Crown corporation, the auditor is to be designated by the Governor in Council. Subsection (2) of the section provides that, in the circumstances mentioned, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a corporation.

Summary of Expenditure and Revenue

24. The Statement of Expenditure and Revenue for the year ended March 31, 1961, as published in the Public Accounts, is reproduced as Appendix 1 to this report. Expenditure for the year amounted to \$5,958 million and revenue to \$5,618 million, resulting in a deficit of \$340 million. This compares with deficits of \$413 million in the preceding fiscal year and \$609 million in 1958-59.

Expenditure

25. The Summary of Appropriations, Expenditure and Unexpended Balances, by Departments, for the year ended March 31, 1961, as published in the Public Accounts, is

reproduced as Appendix 3 to this report. The statement shows appropriations of \$6,212 million, expenditure of \$5,958 million, and unexpended balances of \$254 million.

26. Of the total appropriations for the year, \$2,440 million was provided by continuing statutory authorities, \$3,757 million was granted under Appropriation Acts (Nos. 2, 4, 5, 6 and 7 of 1960, and No. 2 of 1961) and \$15 million remained available from continuing 1959-60 appropriations (Votes 615 and 648).

Of the total expenditure during the year, \$2,440 million was spent under continuing statutory authorities and \$3,518 million was disbursed under the authority of annual appropriations.

Of the unexpended balances of \$254 million, \$225 million lapsed at the end of the year in compliance with section 35 of the Financial Administration Act and a balance of \$29,137,000 in Vote 592 remained available for expenditure in 1961-62 because of the special wording in the appropriation:

"Payments, in accordance with terms and conditions approved by the Governor in Council, to Provinces and in respect of Indian Bands under the Municipal Winter Works Incentive Program during the 1960-61 and 1961-62 fiscal years of amounts not exceeding one-half of the cost of labour incurred in the period from the 15th day of October, 1960, to such day in the fiscal year 1961-62 as may be determined by the Governor in Council—\$30,000,000".

27. The lapsed balances of \$225 million represented 6% of the appropriations under Appropriation Acts. This compares with lapsed balances representing 9% of such appropriations at the close of the preceding year. In the cases of the following departments, the lapsed balances represented 10% or more of the appropriations under Appropriation Acts:

Department	Voted appropriations	Lapsed balances	
		Amount	%
Agriculture	\$235,006,000	\$28,828,000	12
Defence Production	25,021,000	4,602,000	18
Finance	73,217,000	10,935,000	15
Mines and Technical Surveys	52,319,000	5,647,000	11
National Gallery of Canada	1,024,000	103,000	10
Privy Council	2,055,000	232,000	11

28. The following table summarizes the expenditure, by departments, for the fiscal year 1960-61, in comparison with the corresponding amounts for the two previous years:

Department	1958-59	1959-60	1960-61
Agriculture	\$ 208,268,000	\$ 227,420,000	\$ 264,915,000
Canadian Broadcasting Corporation	62,018,000	63,946,000	66,766,000
Citizenship and Immigration	52,844,000	54,917,000	61,049,000
External Affairs	75,820,000	97,221,000	103,023,000
Finance	1,228,205,000	1,420,155,000	1,460,027,000
Labour	86,756,000	102,885,000	121,336,000
Mines and Technical Surveys	43,789,000	54,432,000	59,120,000
National Defence	1,424,741,000	1,514,904,000	1,517,531,000
National Health and Welfare	872,917,000	818,371,000	887,147,000
National Revenue	68,788,000	68,696,000	73,261,000
Northern Affairs and National Resources	58,386,000	74,346,000	74,296,000

Department	1958-59	1959-60	1960-61
Post Office	157,803,000	165,792,000	178,372,000
Public Works	226,061,000	217,876,000	200,892,000
Royal Canadian Mounted Police	51,735,000	52,444,000	56,023,000
Trade and Commerce	19,951,000	17,961,000	21,764,000
Transport	288,838,000	296,447,000	336,447,000
Veterans Affairs	288,784,000	288,305,000	292,298,000
Other departments	148,336,000	166,743,000	183,834,000
	<u>\$5,364,040,000</u>	<u>\$5,702,861,000</u>	<u>\$5,958,101,000</u>

The amounts shown for the fiscal years 1958-59 and 1959-60 in the above comparative table have been adjusted to give effect to the changes which took place during the year under review, as a result of transfers of responsibility under the authority of the Public Service Rearrangement and Transfer of Duties Act. Expenditure of the Board of Grain Commissioners, assistance payments for storage costs of grain, and outlays under the Prairie Grain Advance Payments Act, previously made by the Department of Trade and Commerce, became the responsibility of the Department of Agriculture. Expenditure formerly incurred by the Economic and Technical Assistance Branch of the Department of Trade and Commerce was made instead by the Department of External Affairs. The Department of Forestry, which was established by the Department of Forestry Act assented to on August 1, 1960, assumed responsibility for expenditures previously incurred by certain divisions of the departments of Agriculture and Northern Affairs and National Resources.

Comments are made in the following paragraphs regarding the significant increases or decreases in individual appropriations or groups of appropriations which mainly accounted for the variations in departmental expenditure totals in 1960-61 compared with the preceding year.

29. *Agriculture.* The increase of \$37 million or 16% in expenditure by this Department in comparison with the preceding year was more than accounted for by an outlay of \$41 million for acreage payments to Western grain producers, for which there was no comparable charge in 1959-60. Other significant variations in the year were an increase of \$6 million (14%) for assistance towards grain storage costs, a decrease of \$5 million (19%) in freight assistance on Western feed grains and a decrease of \$4 million (7%) in the amount appropriated towards the net operating loss of the Agricultural Stabilization Board.

30. *Canadian Broadcasting Corporation.* Although the charges to the appropriations providing for payments to this corporation, in respect of its operating and capital requirements, increased by less than \$3 million during the year under review, as indicated by the above table, the actual increase in net payments was approximately \$6 million, or 10%. This was because the payments recorded for 1959-60 were without adjustment for a refund of \$3 million which was received too late for credit to the appropriations of that year (and which was therefore credited to Revenue in 1960-61 as "refund of previous years' expenditures").

31. *Citizenship and Immigration.* The \$6 million or 11% increase in expenditure by this Department resulted mainly from increases of \$3 million (11%) in outlays for Indian education and \$1 million (16%) in Indian welfare expenditure.

32. *External Affairs.* The net increase of \$6 million or 6% in the expenditure of this Department approximates the \$6 million purchase and transfer of wheat flour to assist in the establishment of strategic stockpiles of food supplies in member states of the North Atlantic Treaty Organization. Although there was a \$7 million (53%) decrease in assistance to other countries, there were offsetting increases of \$1 million (15%) in the costs of representation abroad, \$2 million in contributions towards the United Nations operations in the Congo, and \$3 million in other outlays to international organizations.

33. *Finance.* Expenditure by this Department increased by \$40 million or 3% over the preceding year. Payments to the provinces under the Federal-Provincial Tax-Sharing Arrangements Act were \$19 million (4%) higher than in 1959-60, while interest on the public debt rose by \$21 million (3%).

34. *Labour.* The increase of \$18 million or 18% in expenditure by this Department was mainly accounted for by increases of \$9 million (20%) in the Government's contribution to the Unemployment Insurance Fund, and of \$6 million (18%) in administrative and general expenses of the Unemployment Insurance Commission, while payments in respect of the municipal winter works program increased by \$2 million (35%) over the preceding year.

35. *Mines and Technical Surveys.* The expenditure of this Department increased by \$5 million or 9% over the preceding year. Increases of \$4 million (17%) in administration and general expenditure and of \$2 million (10%) in expenditure of the Dominion Coal Board were partially offset by a decrease of \$1 million (8%) in payments made under the Emergency Gold Mining Assistance Act.

36. *National Defence.* Expenditure of \$1,517 million in 1960-61 was only \$3 million more than in the preceding year; however, there were some significant variations within the overall totals. Expenditure for the Air Force was \$23 million (3%) higher than in the preceding year but there were decreases of \$11 million (22%) in the Government's contribution to the Canadian Forces Superannuation Account and \$10 million (4%) in expenditure for the Navy.

37. *National Health and Welfare.* The increase of \$69 million or 8% in expenditure by this Department in 1960-61 compared with the preceding year was largely accounted for by increases of \$39 million (26%) in the Government's contributions under the Hospital Insurance and Diagnostic Services Act, \$15 million (3%) in family allowance payments and \$11 million (28%) in unemployment assistance.

38. *National Revenue.* Expenditure by this Department was up by \$4,600,000 or 7% in comparison with 1959-60, with \$2,100,000 (6%) of the increase being in expenditures of the Customs and Excise Division and \$2,500,000 (8%) in those of the Taxation Division.

39. *Northern Affairs and National Resources.* This Department's expenditure was just under what it was in the preceding year. A \$3 million (33%) increase in contributions to the provinces, to assist in the development of roads leading to resources, was more than offset by reductions in the expenditures of the National Parks and Northern Administration Branches of the Department.

40. *Post Office.* The expenditure of this Department increased by \$13 million or 8% in the year under review, due to general increases in the cost of operations during the year.

41. *Public Works.* The decrease of \$17 million or 8% in expenditure by this Department compared with the preceding year was more than accounted for by decreases of \$14 million (31%) in the cost of construction or acquisition of public buildings and \$7 million (11%) in outlays towards the construction of the Trans-Canada Highway.

42. *Royal Canadian Mounted Police.* The expenditure by this Department increased by \$4 million (7%) during 1960-61, largely accounted for by an increase of \$3 million (10%) in the operation and maintenance of the Land, Air and Training Divisions.

43. *Trade and Commerce.* An increase of approximately \$2 million (24%) in expenditure by the Dominion Bureau of Statistics accounted for half of the \$4 million or 21% increase in the expenditure of this Department during the year under review.

44. *Transport.* The expenditure of this Department increased by \$40 million or 13% over the preceding year. Nearly \$24 million of this amount was on account of the larger net operating deficit of the Canadian National Railways for the 1960 calendar year. The payment with respect to the Trans-Canada Air Lines deficit was \$3 million, whereas the company had a small surplus in the preceding year. Payments under the Freight Rates Reduction Act increased by \$13 million (160%) and expanded services for aviation resulted in an increase of \$10 million (8%) in the cost of operating the Department's Air Services. These increases were partly offset by a reduction of \$11 million (68%) in expenditure for construction or acquisition of marine service steamers.

45. *Veterans Affairs.* The expenditure of this Department varied little from the preceding year with the overall increase of \$4 million or 1% being due to relatively minor increases in the net cost of treatment and in outlays for welfare services, war veterans' allowances and other benefits, and pensions for disability and death.

Revenue

46. The Summary of Revenue, by Main Classifications and Departments, for the year ended March 31, 1961, as included in the Public Accounts, is given as Appendix 4 to this report. The summary shows tax revenues as amounting to \$5,016 million and total revenue of \$5,618 million.

47. The following table gives a summary of the revenue, by principal sources, for the past three years:

	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
Tax revenues:			
Personal income tax	\$1,353,500,000	\$1,566,644,000	\$1,711,160,000
Corporation income tax	1,020,550,000	1,142,880,000	1,276,629,000
Income tax on dividends, interest, etc., going abroad	61,213,000	73,353,000	88,174,000
Sales tax	694,491,000	732,658,000	720,617,000
Other excise taxes	240,624,000	286,568,000	290,658,000
Customs duties	486,509,000	525,722,000	498,698,000
Excise duties	316,744,000	335,207,000	344,945,000
Estate tax	72,535,000	88,431,000	84,879,000
Other tax revenues	1,213,000	877,000	17,000
	<u>4,247,379,000</u>	<u>4,762,340,000</u>	<u>5,015,777,000</u>
Non-tax revenues:			
Return on investments	221,204,000	239,654,000	283,769,000
Net postal revenue	157,541,000	167,562,000	173,594,000
Other non-tax revenues	128,599,000	130,195,000	144,540,000
	<u>507,344,000</u>	<u>537,411,000</u>	<u>601,903,000</u>
	<u>\$4,754,723,000</u>	<u>\$5,289,751,000</u>	<u>\$5,617,680,000</u>

48. The amounts shown for income taxes and sales tax do not include collections of tax levied under the Old Age Security Act on personal and corporation incomes and on sales, which collections were credited to the Old Age Security Fund, the total so credited being \$603,131,000 during the year under review. A summary of the transactions in the Old Age Security Fund for the past three fiscal years is given in paragraph 95.

49. The following is a summary of the excise taxes, other than sales tax, collected during the year ended March 31, 1961, in comparison with the corresponding amounts for the two previous years:

<u>Excise Tax</u>	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
Cigarettes	\$ 127,148,000	\$ 163,608,000	\$ 172,197,000
Automobiles	59,308,000	64,281,000	59,627,000
Manufactured tobacco	18,175,000	19,292,000	18,697,000
Television sets and tubes	10,241,000	9,387,000	8,466,000
Toilet articles and preparations	6,824,000	7,651,000	8,406,000
Phonographs, radios and tubes	7,557,000	8,372,000	7,460,000
Jewellery, clocks, watches, chinaware, etc.	5,599,000	5,609,000	5,943,000
Wines	3,140,000	3,027,000	3,224,000
Cigars	2,673,000	2,603,000	2,755,000
Sundry excise taxes	2,530,000	3,099,000	4,212,000
Refunds and drawbacks	-2,571,000	-361,000	-329,000
	<u>\$ 240,624,000</u>	<u>\$ 286,568,000</u>	<u>\$ 290,658,000</u>

50. A listing of the excise duties collected during the year ended March 31, 1961, with comparable figures for the two previous years, is given in the following table:

Excise Duty	1958-59	1959-60	1960-61
Cigarettes	\$ 132,547,000	\$ 136,931,000	\$ 140,365,000
Spirits	96,551,000	102,354,000	108,502,000
Beer	83,058,000	90,704,000	90,971,000
Other excise duties	8,688,000	9,279,000	9,328,000
Refunds and drawbacks	—4,100,000	—4,061,000	—4,221,000
	<u>\$ 316,744,000</u>	<u>\$ 335,207,000</u>	<u>\$ 344,945,000</u>

51. The following is a summary of the return on investments for 1960-61 in comparison with the corresponding amounts for the two previous fiscal years:

Investment	1958-59	1959-60	1960-61
Bank of Canada	\$ 88,632,000	\$ 74,012,000	\$ 90,175,000
Central Mortgage and Housing Corporation	28,961,000	43,804,000	59,576,000
Exchange Fund Account	18,626,000	25,513,000	32,536,000
Loans to National Governments	31,947,000	31,104,000	30,280,000
The St. Lawrence Seaway Authority		5,000,000	13,149,000
Deposits with chartered banks	4,941,000	10,493,000	6,645,000
Veterans' Land Act loans	5,007,000	4,952,000	5,212,000
Securities Investment Account	2,613,000	3,546,000	5,063,000
Canadian National Railways	11,451,000	11,073,000	4,982,000
Eldorado Mining and Refining Limited	3,525,000	4,230,000	4,935,000
Northern Ontario Pipe Line Crown Corporation	3,078,000	4,074,000	4,299,000
Farm Credit Corporation	1,956,000	2,815,000	4,127,000
National Harbours Board	3,187,000	3,321,000	3,884,000
Polymer Corporation Limited	4,000,000	3,000,000	3,000,000
Other loans and investments	13,280,000	12,717,000	15,906,000
	<u>\$ 221,204,000</u>	<u>\$ 239,654,000</u>	<u>\$ 283,769,000</u>

The amounts shown as earned on the investment in the Bank of Canada represent the annual profits of the Bank, which were surrendered to the Receiver General under section 28 of the Bank of Canada Act, c.13, R.S. The amount shown for the 1960-61 return on the Central Mortgage and Housing Corporation investment comprised \$54,344,000 (\$39,456,000 in 1959-60) for interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, c.46, R.S., together with \$5,232,000 (\$4,348,000 in 1959-60) for the Corporation's profit for its financial year ended December 31st, which was transferred to the Receiver General under section 30 of the Act. The \$13,149,000 shown for the return on the investment in The St. Lawrence Seaway Authority in 1960-61 represents the interest which had accrued during the year on loans made to the Authority (see paragraph 63). The reduction from \$11,073,000 in 1959-60 to \$4,982,000 in 1960-61 in the return on the investment in the Canadian National Railways was due to a decrease during the year of \$115,000,000 in outstanding advances to the company, when repayments were received from the company following an issue of its securities to the public.

52. The net postal revenue amounts listed in the table in paragraph 47 represent gross postal revenue less disbursements for the remuneration of postmasters and staffs at certain classes of smaller post offices, and for miscellaneous expenditures, during each of the past three fiscal years, as follows:

	1958-59	1959-60	1960-61
Gross postal revenue	\$ 183,291,000	\$ 193,593,000	\$ 201,952,000
Disbursements—			
Remuneration of postmasters and staffs	21,781,000	22,053,000	24,050,000
Miscellaneous expenditures	3,969,000	3,978,000	4,308,000
	<u>25,750,000</u>	<u>26,031,000</u>	<u>28,358,000</u>
Net postal revenue	<u>\$ 157,541,000</u>	<u>\$ 167,562,000</u>	<u>\$ 173,594,000</u>

In paragraph 155 of this report a summary is given of the Post Office transactions for the fiscal year 1960-61, in comparison with the preceding year, together with comments on the recorded excess of expenditure over revenue.

53. An analysis of the amounts shown for "other non-tax revenues" for the year ended March 31, 1961, with comparable figures for the two previous fiscal years, is given in the following table:

	1958-59	1959-60	1960-61
Privileges, licenses and permits	\$ 27,883,000	\$ 24,970,000	\$ 27,206,000
Proceeds from sales	23,521,000	21,892,000	23,981,000
Services and service fees	27,195,000	31,299,000	35,672,000
Refunds of previous years' expenditure	37,663,000	40,630,000	40,544,000
Miscellaneous	12,337,000	11,404,000	17,137,000
	<u>\$ 128,599,000</u>	<u>\$ 130,195,000</u>	<u>\$ 144,540,000</u>

Comments on Expenditure and Revenue Transactions

54. Reference has already been made to the statutory responsibilities of the Auditor General under section 70 of the Financial Administration Act, which requires him to call attention to specific classes of transactions observed during his examinations and to any other matter that he "considers should be brought to the notice of the House of Commons".

Pursuant to this direction, I consider that the following matters relating to the expenditure and revenue transactions examined during the fiscal year under review should be brought to the attention of the House in this report.

55. *Questionable charges to Vote 576.* This appropriation reads:

"Payment of an amount, as a higher return for wheat used for human consumption in Canada, to Western grain producers to be distributed on the following basis, namely:

\$1.00 per cultivated acre up to a maximum of 200 acres per farm in accordance with regulations of the Governor in Council—\$42,000,000".

It was noted in the audit that payments of \$1 per cultivated acre up to a maximum of 200 acres per farm were made, under regulations approved by the Governor in Council, to Western grain producers irrespective of whether wheat, oats or barley had been sown, or the fields left in summer fallow.

Although the wording of the appropriation provides only for payments to grain producers on the basis of cultivated acreage, the Treasury Board ruled that the related administrative expenses, amounting to \$103,000, that had been incurred by the Canadian Wheat Board during the year were a proper charge to the appropriation.

56. Prairie Farm Emergency Fund deficit. A deficit of \$9,200,000 resulted from the operations of this Fund under the Prairie Farm Assistance Act, c.213, R.S., during the year under review, in comparison with the deficit of \$12,529,000 for the preceding fiscal year. As in previous years, the 1960-61 deficit was charged to Expenditure without a specific parliamentary appropriation having been provided for the purpose.

In its Fifth Report, 1961 (paragraph 27), the Public Accounts Committee referred to the fact that the Agricultural Stabilization Act provides for the inclusion of an item in the Estimates to cover the net operating loss of the Agricultural Stabilization Board in any year, and recommended:

“that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in the Estimates to cover any deficit that might be anticipated in the operation of the Prairie Farm Emergency Fund.”

It is understood that the Department of Agriculture has established a committee to study various matters relating to the operations of the Fund, including consideration of the recommendation quoted above.

57. Irregular credit to Indian band revenue account. On the authority of a resolution of its council dated September 21, 1954, an Indian band agreed to purchase for \$10,000 certain public lands under the control and administration of the Department of Citizenship and Immigration. However, initially through difficulties in determining boundaries and later through inadvertence, the lands were not legally set apart on the authority of the Governor in Council as an addition to the band's reserve until November 10, 1960, and the purchase price of \$10,000 was not transferred from the band's capital account to the credit of Revenue until November 21, 1960. In the six year interval between the Indian band's agreement to purchase the lands and the consummation of the sale, revenue from the leasing of a portion of the lands, amounting to some \$9,000, was credited to the band's revenue account. This account was also credited with approximately \$1,000 of interest on the increased annual balances which resulted from the crediting of the rental moneys.

In the Audit Office view, the rentals collected before the sale was consummated are Crown revenues and were irregularly credited to the Indian band's revenue account, as were also the related interest amounts.

58. Delay in recipient countries' certification for counterpart funds. In last year's report reference was made to amounts that had been spent out of funds appropriated

by Parliament for the Colombo Plan, for the purchase of commodities supplied in accordance with agreements with the recipient countries that "counterpart funds" would be set aside by them for subsequent use in connection with agreed economic development projects. It was noted that as at March 31, 1960 statements of counterpart funds, certified by the Auditors General of the recipient countries, as required by the agreements, had not been received in respect of commodities supplied to a total value of \$85,604,000.

In its Fifth Report, 1961 (paragraph 29) the Public Accounts Committee recommended:

"that efforts be made by the Director General, External Aid, to obtain from the various recipient countries, on a reasonably current basis, the audit certificates called for by the agreements, and requests the Auditor General to report on the results in due course."

Additional expenditures totalling \$33,800,000 requiring the setting aside of counterpart funds were made during the year under review and, as audit certificates to the extent of only \$1,000,000 were received during the year, the expenditures requiring certification as to counterpart funds totalled \$118,404,000 at March 31, 1961.

An examination of records in the External Aid Office indicates that since my last report continued efforts have been made by the Director General, External Aid, to secure certification of counterpart funds.

59. *Government contributions not made to superannuation accounts.* Subsection (2) of section 32 of the Public Service Superannuation Act, c. 47, 1952-53, reads:

"There shall be credited to the Superannuation Account, as soon as possible following the authorization of any salary increase of general application to the Public Service, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this Act, as a result of such salary increase."

Similar statutory provisions are contained in the Canadian Forces Superannuation Act, c.21, 1959, and the Royal Canadian Mounted Police Superannuation Act, c.34, 1959.

No special credits were given to any of the superannuation accounts, and no offsetting charges were made to Expenditure, to provide for the increases in benefits payable as a result of the salary and pay increases granted to the members of the public service, armed forces and the Royal Canadian Mounted Police during the year ended March 31, 1961.

It is understood that, so far as the Public Service Superannuation Account was concerned, the Department of Finance took the view that, since the salary increases for the various classes of the Civil Service had been granted at intervals over a period of several months, they did not represent an "increase of general application". The increases to members of the Armed Forces and the Royal Canadian Mounted Police were granted to all classes at the one time.

In this connection, a note appended to the Statement of Assets and Liabilities included in the Public Accounts reads as follows:

"The liability of \$3,955,509,445 in respect of annuity, insurance and pension accounts does not include any provision for additional liabilities resulting from salary and pay increases during the fiscal year; the amounts involved are estimated by the Department of Insurance at \$80,700,000 for the Public Service Superannuation Account, \$79,050,000 for the Canadian Forces Superannuation Account, and \$1,760,000 for the Royal Canadian Mounted Police Superannuation Account."

60. *Regularization of employment beyond retirement age.* In its Fifth Report, 1961 (paragraph 68), the Public Accounts Committee noted that authority had been provided by Parliament by means of a dollar vote (Vote 686, under the Department of Finance) in Supplementary Estimates (5), 1960-61, to regularize employment during periods when employees had been employed beyond retirement age without due authority. The text of Vote 686 reads:

"To provide that where the Governor in Council is of opinion that a person, without fraud, continued to render services to the Crown after attaining the age at which he automatically ceased to be employed pursuant to regulations made under the authority of paragraph (ad) of subsection (1) of section 30 of the Public Service Superannuation Act, such person shall be deemed, notwithstanding anything in those regulations, to have been employed in the Public Service during such period after attaining that age as the Governor in Council determines."

Attention is drawn to the words "without fraud" in the text quoted. Up to the end of September 1961, the Governor in Council acted under the authority provided to approve employment in 22 cases where services had been rendered beyond retirement age. In four of these, the employees concerned had admitted misrepresentation of age in order to obtain, or continue in, employment, and details of one of these cases are now given by way of illustration.

An employee understated her age by 13 years in 1945 when she entered the Civil Service. In 1958, when proof of age was required in connection with an election under the Public Service Superannuation Act to pay for past service, the employee claimed that she could not comply because parish records had been destroyed by fire. However, when she was advised that her election to pay for past service could not be made final until proof of her age was on file, a baptismal certificate was produced in November 1959 which indicated that she had reached retirement age in September 1955. The employee was not retired until December 1960, at which time the annuity to which she was entitled (calculated as of September 28, 1955) was \$683 per annum. An Order in Council of February 16, 1961 authorized suspension of collection of \$25,156, representing the salary paid during the period of illegal employment from September 28, 1955 to December 14, 1960. On July 6, 1961 the Governor in Council, under the authority provided by Vote 686, quoted above, legalized the service with the result that the amount of the employee's annuity was increased from \$683 to \$1,482 per annum. In the mean-

time, in January 1961, the annuitant had been re-appointed to her former department, at age 70, under certificate of the Civil Service Commission, and a Treasury Board Minute of September 8, 1961 approved continuation of employment to September 27, 1962. It is estimated that this service, when completed, will further increase the amount of her earned annuity to \$1,703 per annum.

It is difficult to understand how "fraud", in the context of Vote 686, quoted above, can be interpreted otherwise than as including deliberate misrepresentation of age and withholding of documentary proof of age.

61. *Errors in Public Service Superannuation Account contribution and pension calculations.* Responsibility for the pre-audit of superannuation payments was transferred from the Comptroller of the Treasury to the Superannuation Branch several years ago, the relevant administrative directive reading as follows:

"As of the date of issuance of this directive the Superannuation Branch shall be solely responsible for establishing the extent and cost of elective pensionable service. Once the Superannuation Branch has determined the extent and cost of elective service the case for administrative purposes will be closed. Furthermore where the Superannuation Branch has already determined the extent and cost of elective service in the case of an election made prior to January 1, 1954, that case for administrative purposes is now closed. Any contributor or his employing agency may reopen a case of elective service; however, once this is done the relevant laws must be applied."

A result of this decision has been a weakening of internal control due to the lack of an effective check on the individual pension calculations. In our test examinations each year since, numerous errors have been found involving both over-payments and under-payments of pension on a continuing basis and incorrect charges for contributory service. Many of these errors could have been avoided had there been a review or internal audit of the contributors' files prior to authorization of payment of benefits.

We drew the attention of the Department of Finance to this situation in 1959 and again in 1960, pointing out that because of the high incidence of errors revealed in our test audit, it must be assumed that many more go undetected. As a result of recent meetings held with departmental officers, we understand that consideration will be given to this matter.

62. *Interest charges on loans to the National Capital Commission.* Up to March 31, 1961 loans totalling \$25,300,000 were made, on the authority of annual parliamentary appropriations under the heading "Loans, Investments and Advances" (e.g., Vote 489, 1960-61) to the National Capital Commission and its predecessor, the Federal District Commission, for the purpose of acquiring property in the National Capital Region. Repayment is to be made when the property is used for the purposes of the Commission or disposed of and, after repayments of \$57,648 in 1959-60 and \$10,752 in 1960-61, representing the proceeds from property sales, the loans outstanding at March 31, 1961 were \$25,231,600. The loans are secured by promissory notes and bear interest payable semi-annually at rates of from 4% to 5 $\frac{3}{4}$ % per annum.

In paragraph 131 of this report it is explained that the objects and purposes of the Commission are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region", and it is also indicated that the Commission's activities are financed to a limited extent only by revenues from rentals, etc. It therefore seems unrealistic to put the Commission in the position where it is required to pay interest on loans, when it must be provided with funds through parliamentary appropriations to meet the interest payments.

Interest payments, credited to Revenue as return on investments (Department of Finance), amounted to \$1,097,000 in the year ended March 31, 1961, and of this amount \$940,000 was provided by a parliamentary appropriation for payment of interest to the Receiver General (Votes 315, 731).

The following is a summary of property acquisitions to March 31, 1961, financed by means of loans provided to the Commission:

Greenbelt	\$ 18,932,000
Queensway	2,441,000
Ottawa River Parkway	829,000
Eastern Parkway	727,000
Other properties	1,618,000
	<hr/>
	\$ 24,547,000
	<hr/>

The properties in the Greenbelt are mostly farm properties which are unlikely to yield anything approaching sufficient rental to pay the interest on the sums paid to acquire them and, by Executive direction, they may not be sold. In the year in which the Queensway is turned over to the City of Ottawa, a parliamentary appropriation will be required to provide funds with which to pay off the amount of loans made in respect of it.

From the practical point of view, expenditures made on properties for the Greenbelt, the Queensway and other projects are expenditures of the Crown rather than income-producing investments. For this reason, it would seem that Parliament should be asked to provide funds by means of appropriations in the years in which the properties are to be acquired instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

63. *Interest on loans to The St. Lawrence Seaway Authority.* Earnings of The St. Lawrence Seaway Authority for the year ended December 31, 1960 were not sufficient to meet fully the Authority's obligation to pay to the Minister of Finance the \$13,149,000 of interest for the year on outstanding loans.

On March 30, 1961 the Minister of Finance made a loan of \$9,500,000 to the Authority to cover the unpaid balance of the interest for 1960. This transaction was recorded in the accounts of the Department of Finance as a charge to the account recording the loans made to the Authority and as a credit to Revenue (return on investments).

As this interest amount of \$9,500,000 had not been earned by the Authority, it is the Audit Office view that it was improper for the Department of Finance to increase

governmental revenue for the year in the above manner and at the same time reduce the future borrowing powers of the Authority under section 13 of the St. Lawrence Seaway Authority Act, c. 242, R.S., as amended.

64. *Deletion of debts due to the Crown.* Section 23 of the Financial Administration Act provides authority to the Governor in Council, on the recommendation of the Treasury Board, if considered in the public interest, to delete from the accounts any debt due to or claim of the Crown that does not exceed \$1,000.

Deletion from the accounts of debts or claims of \$1,000 or over requires specific statutory authority, and for the year under review this was provided by Vote 681, which reads:

"To authorize the Treasury Board to delete from the accounts certain debts due to, and claims of Her Majesty, each of which is in excess of \$1,000, amounting in the aggregate to \$4,071,008.80—\$1".

There is nothing in the wording of this Vote to indicate that, along with balances totalling \$3,880,022 in memorandum departmental accounts there were also balances totalling \$190,986 that were carried as assets in the Statement of Assets and Liabilities. These balances were with respect to loans made to fishermen, through the Provinces of Nova Scotia and Prince Edward Island, for abnormal equipment losses. When these asset balances were deleted from the accounts the result was that charges to the total of \$190,986 were made to 1960-61 Expenditure, as shown in the Public Accounts (Volume II, page 11-12).

In the Audit Office view, it would have been preferable had special reference been made to these asset balances in the wording of the Vote text, and had provision been made that they be recorded as charges against the "reserve for possible losses on realization of assets".

65. *Examination of claims under the Winter Works Program.* The federal government has entered into agreements with each of the provinces to reimburse municipalities, through their provincial governments, for one-half of the direct payroll costs incurred by them on municipal winter works projects. The categories of works projects to which the contributions apply are defined in the agreements, and each project is subject to the approval of the provincial government and acceptance by the federal government. The agreements, in the form of an exchange of letters between the federal Minister of Labour and the provincial premiers, provide that claims for reimbursement by the federal government be audited by the provincial auditor or an auditor designated by him and certified by the appropriate provincial minister.

Attention is drawn to the fact that, unlike most federal-provincial cost-sharing agreements, these agreements contain no provision for examination by federal officers of provincial or municipal records supporting the claims, either before or after payment.

66. *Armed Forces travelling and removal regulations.* Travelling and removal expenses of members of the Armed Forces are paid in accordance with regulations contained in the Queen's Regulations and Orders, rather than under the Executive regula-

tions that are applicable to the civilian departments. Over the years, some of the regulations have been regarded as producing results that were unsatisfactory from the audit point of view and in such cases it has been our practice to draw the Department's attention to the matter in order that appropriate remedial action might be taken. In general, such action has been prompt; however, in the opinion of the Audit Office, the regulations seem to require some amendment in the two following sets of circumstances.

When servicemen are permitted to use personally-owned automobiles to transport themselves and their dependents to new places of duty, the regulations do not provide for reimbursement of actual cost as evidenced by receipts. Instead, the servicemen are allowed to claim amounts equivalent to the expenses that would have been incurred had the journeys been made by means of public transportation facilities. In recent years, with the introduction of various special rail transportation rates such as group and all-inclusive fares, the calculation of the hypothetical cost of such journeys has become more complicated and overpayments occur more frequently than previously.

Service personnel released with ten or more years' service are entitled, together with their dependents, to be moved at public expense to their "intended place of residence in Canada". Many use their personally-owned automobiles for the journeys and claim reimbursement on the hypothetical basis described above, which does not require the submission of receipted vouchers. Difficulties arise when a serviceman returns to the point of discharge or goes to some other place, after only a brief visit to the "intended place of residence", for the man alone knows if he had actually intended to take up permanent residence at the place indicated. Moreover, regulations do not require that any proof be produced that the journeys were, in fact, undertaken and cases have been observed where there was reason to believe that they were not. In the foregoing circumstances, the payment from public funds takes on the characteristics of a special retirement gratuity, rather than providing assistance towards rehabilitation which presumably is the intention of the regulation.

67. *Loss of aviation gasoline.* A storage tank used by the R.C.A.F. for holding aviation gasoline had been drained in preparation for cleaning but the tank was connected, by means of cross-flow lines, with a second tank from which issues were being made. When valves on the connecting feeder lines were erroneously opened, gasoline flowed into the empty tank and through an open manhole on to the ground, with the result that over 167,000 gallons, valued at \$44,600, were lost.

Although a board of inquiry found that the supervision of the tanks was lax, disciplinary action of a minor character was confined to the three leading aircraftsmen involved.

We are informed that, since this incident, Air Force regulations on the cleaning of fuel storage tanks have been amended to prevent the recurrence of this type of loss.

68. *Medical care for dependents overseas.* The Queen's Regulations and Orders provide that an officer or man whose dependent, while residing in an overseas area, is admitted to a military hospital, whether operated by Canadian military forces or by the forces of another country that cares for Canadian forces in the area, shall pay to the

Crown an amount equal to two-thirds of the prevailing rates charged for in-patient treatment by the Department of Veterans Affairs. Currently the amount thus required to be paid for each dependent is at the rate of \$13.37 per day except for children under six months, in which case the rates are either \$2 or \$3 per day, according to whether the mother is in the hospital or not.

It is compulsory for Service personnel serving outside Canada to insure their dependents under the Hospital Insurance (Outside Canada) Plan administered by the Department of Finance, and payments are made by that Department to the Department of National Defence of amounts equivalent to what would otherwise have been due by the servicemen on the basis referred to above.

It was noted in the audit that many dependents overseas received care in United States military hospitals, which levied charges at the rate of \$34 per day regardless of the age of the dependents. In these cases the amounts recovered by the Department of National Defence from the Hospital Insurance (Outside Canada) Plan thus represented only a small part of the amounts required to be paid by the Department to the hospitals. Thus, in respect of one billing covering 11 cases of hospital care, the Department paid out \$7,068 and recovered only \$2,051, or 29%.

The Department estimates that it is out of pocket approximately \$45,000 a year for the care of dependents overseas in United States military hospitals.

69. *Supply of Navy divers without charge.* Executive regulations provide that the Minister of National Defence, where in his opinion the national interest would be served may authorize the supplying of services by the Department to organizations and individuals, on the following basis:

"The rate for the provision of the service shall not be less than the current commercial rate or, if no commercial rate is applicable or a commercial rate cannot be determined, the rate shall not be less than the cost to the department of supplying the service plus ten percent."

In the summer of 1960, headquarters approval was given for the services of Navy divers from Halifax to carry out underwater work in Newfoundland and Gaspe, on the submarine cable operated by the Canadian Overseas Telecommunication Corporation, a Crown company. A team of nine men proceeded to the sites and performed diving operations during a period of approximately one month, using some Navy equipment. On completion of the work, the men were paid their travelling and living expenses by the Corporation in the amount of \$3,476.

When the work was finished, the head of the diving team entered into an agreement with a private contractor who was engaged under contract with the Corporation on trenching and cable securing operations, to carry out further diving work at a site in Newfoundland. A team of five men worked for eleven days for which they were paid amounts totalling \$2,725 directly by the contractor, on the basis of daily rates of \$75 for the head diver and \$50 or \$25 for the other divers.

Attention is drawn to these arrangements for the reason that since the men continued to receive their regular Navy pay and diving allowances during the periods in

question, in amounts totalling about \$4,000 and \$9,500 respectively, the Department should have billed the Corporation and the contractor for the cost of supplying the services, including the use of Navy equipment, plus 10%, as required by the regulation quoted above.

The entire matter was under investigation by the Department at the year-end.

70. *Disbursement of death gratuity without authority.* When a civilian employee of the Department of National Defence died in December 1958, it was found that he had reached the compulsory retirement age of 65 over two years previously and had therefore been employed without authority during that period. Notwithstanding this, a cheque for \$1,000 was issued in January 1960, payable to the man's estate (his widow had died in the interval) covering a death gratuity equal to two months' salary, by relying on section 56 of the Civil Service Act. This section reads:

"When a person dies while in the Civil Service, after having been at least two years therein, an amount equal to two months of his salary shall be paid to his widow or to such person as the Treasury Board determines."

Audit exception is taken to the payment for the reason that, since the man was no longer legally "in the Civil Service" at the time of his death, the payment to his estate was irregular.

71. *Service pensions.* The Service Pension Board, appointed by the Minister of National Defence under section 20 of the Canadian Forces Superannuation Act, c.21, 1959, consists of a chairman, one member from each of the Services and a member to represent the Minister. The duty of the Board is to determine, in the case of any contributor who is retired from the Forces, the reason for his retirement, and on making such determination to certify in writing the reason as determined by it, and no payment of any annuity or other benefit may be made under the Act to a contributor who is retired except upon certification in writing by the Board.

Reasons for retirement fall into the following categories: having reached compulsory retirement age, having become disabled, to promote economy and efficiency, inefficiency, misconduct and voluntary, and the reason determined in each case has a direct bearing on the benefit payable. In the audit the following cases were noted where the reasons determined by the Board resulted in substantially more generous benefits than would have been the case had other reasons, which seemed indicated by documents on file, been accepted.

In one case a corporal, aged 27, had signified in writing some nine months prior to the expiration of his term of engagement that he did not intend to re-engage. Normally, having so signified, he would have been struck off strength at the end of his engagement period, on a voluntary retirement basis, and received a return of pension contributions which in this case would have amounted to \$2,031. Instead, it was decided to retire the man compulsorily "to promote economy and efficiency" about three months before the expiration of the engagement period. As he then had 10 years and 9 months' service he was granted an immediate life annuity of \$599 to age 65

and \$856 thereafter, with a total value of some \$27,000. The file indicates that the man during his service "had been most erratic in his behaviour and attitude towards service life" and that he was an "administrative nuisance".

In another case, an Air Force officer, aged 37 years, with about 15 years' service on the flying list, became subject to airsickness and a medical board lowered his category, thus rendering him unfit for further employment as aircrew. He was offered a transfer to another branch of the Service but declined. He was accordingly retired on a voluntary basis in January 1960 and received a refund of pension contributions in the amount of \$4,377. The file indicates that the officer had applied for release for the purpose of returning to university to further his education, prior to his initial medical examination, and another medical board stated that "symptoms of airsickness were reported at a time when it appeared advantageous to furthering his personal plans". Following the release, representations were made by and on behalf of the man regarding the non-pensionable discharge. The Board reviewed the case and amended the original finding to read "retired by reason of having become disabled", thereby establishing a right to an annual pension of \$1,943, with a total value of approximately \$68,000.

72. *Annuities to servicemen retired for inefficiency or misconduct.* In last year's report reference was made to the provision with regard to retirements for inefficiency, in the Canadian Forces Superannuation Act, c. 21, 1959, that, in the discretion of the Treasury Board on the recommendation of the Minister of National Defence, a contributor may be paid the whole or any part of any pension he would have been entitled to if he had been retired to promote economy and efficiency—in other words, for normal cause. A case was commented upon in the report where the Department had sought and obtained Treasury Board approval for an annual pension to an officer who still had 11 years to serve and who had been retired for inefficiency, based on 95% of the permissible maximum, whereas had he retired voluntarily he would have received only 45%.

In its Fifth Report, 1961, the Public Accounts Committee took note of the discretionary authority of the Treasury Board in this regard, and recommended (paragraph 47):

"that consideration be given to amending the wording of subsection (4) of section 10 of the Canadian Forces Superannuation Act in such a way that in no case could a pension be awarded to a person released on grounds of inefficiency that would be greater than that to which he would have been entitled had he retired voluntarily."

Although no amendment was made to the Act, the Department, on June 15, 1961, with the approval of the Treasury Board, introduced a new plan for determining awards in respect of retirements for inefficiency. Under the previous plan awards were based on the ratio of good and faithful service to the total service of the contributor without regard to age. The new plan, however, provides for the normal pension to be reduced by 5% for each full year by which the age of the contributor at the time of retirement is less than the compulsory retirement age applicable to his rank. Although

this plan provides for basically the same benefits as in the case of voluntary retirements, it at least removes the anomalous situation whereby members retired for inefficiency could receive greater benefits than if they had retired voluntarily.

In connection with retirements for misconduct, the Defence Services Pension Act which preceded the Canadian Forces Superannuation Act provided for one-half pension to age 65 and two-thirds thereafter. The new Act, however, as in the case of retirements for inefficiency, leaves the determination of the amount of an annuity largely to the discretion of Treasury Board, based on the recommendation of the Minister. During the fiscal year, 14 servicemen who were retired for misconduct not related to military duty were awarded interim annuities ranging from 70% to 95% of the permissible maximum. These annuities have been put into monthly payment and will continue until they equal a return of contributions. The payments will then be deferred until the ex-member (a) reaches the retirement age applicable to his former rank or (b) would have completed 25 years' pensionable service if he had remained in the Forces, whichever is earlier. Following the deferment period the annuities will be increased by 5%, and nine of the 14 annuitants will then be receiving 100% pensions. The total value of these 14 annuities is estimated to be some \$190,000 greater than would have been the case had the awards been made under the former Act.

On June 15, 1961, concurrently with the introduction of the new plan relating to retirements for inefficiency, a similar plan for determining awards for retirements for misconduct became effective with respect to retirements after that date.

73. *Indirect contributions towards provincial taxes.* An anomaly in connection with the operation of the Hospital Insurance and Diagnostic Services Act is that the federal government is, in effect, contributing towards provincial taxes by reason of the fact that provincial sales tax amounts are included in the claims submitted by the provinces for hospital operating costs shareable under the hospital insurance scheme.

In March 1960 the Department of National Health and Welfare wrote to the provinces then levying sales taxes, to the effect that, since the federal government provides for the exemption of hospital purchases from federal sales tax, as well as customs concessions for a large portion of hospital imports, consideration might be given by the provinces to exempting participating hospitals from the payment of provincial sales taxes. However, the provinces were, generally speaking, unwilling to consider such reciprocal action, pointing out, among other things, that there was nothing in the agreements under the Act, or in the Hospital Insurance Regulations, requiring that such taxes be deducted from hospital operating costs as being non-shareable.

With the exception of Manitoba and Alberta, all provinces impose sales taxes. Exemptions from these taxes vary among the provinces, Quebec exempting hospital purchases entirely while other provinces exempt individual items such as drugs, foodstuffs and fuels. However, ordinarily the taxes do apply to items such as furnishings, equipment and cleaning supplies, the costs of which are shareable under the hospital plan.

The extent to which the sharing of provincial tax payments by hospitals adds to the federal contributions under the hospital plan is not known, but the basic principle of contributing to provincial taxes in this way would appear to be open to question.

74. *Unemployment Assistance contributions to provinces.* In last year's report the Audit Office opinion was re-stated that the Unemployment Assistance Act, administered by the Department of National Health and Welfare, includes ambiguities which have resulted in varying interpretations and that the text merits further consideration. Our examinations during the past year have served to confirm this opinion and have also pointed to the desirability of exploring the need for regulations to amplify various sections of the Act in order to promote a greater degree of uniformity in its application throughout Canada.

A number of overpayments were reported upon last year involving Nova Scotia, Alberta and British Columbia. Overpayments to Alberta of \$43,000 were confirmed and recovered during the year under review. With respect to Nova Scotia, overpayments of \$55,000 have been recovered, although it is understood that this amount is still subject to minor revision. The amount recoverable from British Columbia, originally estimated at \$360,000, has now been revised to approximately \$131,000 and about \$86,000 has been recovered. The substantial reduction of the overpayments in British Columbia, which related to child welfare cases, was to a considerable extent the result of the Department's decision to accept as shareable, assistance paid in respect of a child in a 'mother's allowance type of foster home', defined as the home of a relative of the child, provided the relative with whom the child is living is unemployed and the family meets some test of need which necessitates assistance being paid to it on behalf of the child. The Department agreed that an acceptable test of need would be that the relative is in receipt of social assistance or his income does not exceed the income ceiling specified in the provincial legislation or regulations.

In Ontario, some of the municipalities have been claiming, as shareable, the costs of assistance in cases where the recipients were required to work out assistance given them. The Department concurs in our view that such assistance is not shareable under the agreement and steps are presently being taken to determine the extent of the practice and the amount of possible recoveries.

In Quebec, examinations by the Audit Services Division of the Office of the Comptroller of the Treasury and this Office have revealed misinterpretations of certain clauses of the Act and Agreement, such as failure to take into account the income of inmates in homes for special care in arriving at shareable costs, and confusion about what rate is to be used as a basis for sharing the cost of accommodation in homes for special care. Adjustments of resulting discrepancies revealed by audit are currently under discussion. In an effort to cope with the large backlog of audit work resulting from the rapid implementation of the program in Quebec, and special problems that have arisen in bringing the province's system of social assistance within the requirements of the Unemployment Assistance Act and Agreement, arrangements have been made for the Audit Services Division to assist the Provincial Auditor in the examination of accounts received

by the province from homes for special care. The practice followed in other provinces, whereby the provincial auditors' examinations of claims and certification in accordance with the agreements precedes separate examinations made on behalf of the federal government, will, we understand, be implemented as soon as conditions permit.

With regard to the cost of maintaining needy persons in provincial and municipal homes for special care, there does not appear to be a uniform policy in determining the elements of cost to be included in calculating the monthly accommodation rates. For example, in Ontario depreciation on existing plant and on additions to plant and equipment is excluded but the cost of equipment replacement is included. On the other hand, in the Maritime Provinces expenditure on modernization of old buildings, installation of sprinkler systems and elevators, etc., amortized over several years, has been included in determining monthly rates. In Saskatchewan, operating costs, upon which monthly rates are based, include depreciation charges and also charges for the amortizing of loans to finance buildings.

Among the exclusions under subsection (2) of section 4 of the Act are payments made by way of supplemental allowance or cost of living bonus to persons in receipt of old age assistance, blind persons' allowances, disabled persons' allowances and old age security pensions. However, the Act does provide that additional relief may be paid to persons in receipt of the above-mentioned forms of assistance when need is indicated. During the year under review, the Department agreed that supplemental allowances being paid in Saskatchewan, Alberta and British Columbia could be regarded as additional relief payments in accordance with section 4 (3) (b) of the Act and section 8 of the agreement when they are based on an individual budgetary assessment of need in which basic expenditures as well as income are considered. Saskatchewan and Alberta met these requirements and have been including supplemental allowances in their claims since April 1, 1961 and June 1, 1961, respectively. British Columbia has included supplemental allowances in its unemployment assistance claims since September 1, 1960; however, there is some doubt about the way in which budgetary assessments have been made and some revision of past claims may be necessary.

It has also been noted that the use of the word 'unemployment' in the title of the Act has from time to time caused confusion. For example, it appears to have been the intent of the legislation to assist unemployables as well as unemployed employables. Mental defectives, paraplegics and other disabled persons and senile people, including some who have never been in the labour market, are being assisted under the legislation. Yet, even in its broadest sense, the term 'unemployed' would be expected to include only persons who have been, are or will be capable of employment.

Consideration of the Unemployment Assistance Act and its relationship with other federal social assistance programs also raises the broader question of overall co-ordination of all programs involving assistance to individuals with a view to the avoidance of irregularities, overlapping or duplication among programs, and the achievement of greater uniformity in the treatment of the recipients and economy of administration.

75. *Cost of constructing high speed wind tunnel.* In August 1954 the Department of National Defence obtained approval for the construction of a high speed wind tunnel at the National Aeronautical Research Establishment at Ottawa. The tunnel was regarded as an essential part of the air defence program, particularly in the later development of the CF-105 aircraft and ancillary guided missiles, and was planned for completion by 1957-58. In November 1954 Executive authority was granted to proceed with the project at an estimated cost of \$3,750,000. It was recognized, however, that the highly technical nature of the project, which would make it necessary to develop plans and specifications for some components as the work progressed, made it impossible to forecast costs accurately.

Expenditures incurred up to March 31, 1958 were charged to appropriations of the Department of National Defence. Subsequent costs have been shared equally by that Department and the National Research Council. A total of \$7,531,000 had been spent on the project to March 31, 1961, of which \$4,155,000 was charged to the Department and \$3,376,000 to the Council. It is understood that, on the basis of present plans approved by Executive decision, the final cost is likely to reach \$9 million.

Attention is drawn to the matter because of the extent to which the project and its cost have expanded since the original authorization was given and also because, while some seven years have elapsed since the work was commenced, the project is not yet complete.

76. *Doubtful title to property in Newfoundland.* Following Union of Newfoundland with Canada, three Crown-owned residences located in Cornerbrook continued to be occupied by customs officials, formerly in the employ of Newfoundland, who had been transferred to the Government of Canada. A fourth residence in the same locality, occupied by a Newfoundland Post and Telegraph official, was taken over in December 1956 by the Department of National Revenue through the issuance of an Exchequer Court writ of possession.

The Department was of the opinion that all four residences were the property of Canada in accordance with sections 33 and 34 of the Terms of Union. However, when three of the residences (including the one which had been taken over by court order) became temporarily vacant in January 1957 and October 1958, officers of the provincial government took possession and the Government of Canada has received no rental payments since. The fourth residence continues under the control of the Department of National Revenue and is occupied by an officer of the Department who had been in the customs service of the province before Union.

In the period of nine years following Confederation, expenditures in excess of \$15,000 were made for repairs, maintenance, taxes, etc., while rentals collected in the same period amounted to \$3,900. Expenditures for water and sewage services for all the houses were continued up to June 1960, the amount expended on the three houses taken over by the province being \$500 from the time they were taken over up to June 1960.

The question of ownership of the houses has been with the Department of Justice since July 1957.

77. *Identical tenders for incandescent lamps, etc.* During the audit it was noted that the Department of Public Works had called for tenders for the supply of incandescent lamps and fluorescent tubes, to meet the needs of various federal buildings throughout Canada, for delivery as and where required during the fiscal year commencing April 1, 1961. Based on the application of unit prices to estimated quantities of the various items, identical bids of \$301,191.16 were received from the three companies which submitted the lowest complete tenders. The Department's file indicated that it had written to each of the three firms stating that it was "most difficult to understand how in a tender call involving in excess of \$300,000 equal bids, even to cents, could be received in what is presumed to be a competitive market".

The same companies were asked to re-tender and each submitted the same bid as in the first instance. The Department then placed the facts before the Treasury Board which, early in February 1961, authorized the placing of the order with a company other than the one which had held the contract for supplying similar requirements during the two previous fiscal years.

In the course of our inquiries into this case, we were informed that this was the third instance of identical bids for lamps during the past four years. In at least two cases the Department has placed the facts before the Combines Branch of the Department of Justice. The branch has pointed out that the fact that identical tenders are submitted is not of itself conclusive evidence that there has been collusion, in the criminal sense, in arriving at the amount bid by each supplier. However, the branch accumulates evidence of identical tenders in the event that such evidence may ultimately become relevant and useful should evidence of collusive practices be disclosed.

78. *Doubtful charges against Vote 446.* In March 1960 the Department of Transport sought Executive approval in principle for the construction of additional airfield facilities at Frobisher, N.W.T. As there was uncertainty regarding the future of the airfield, the Treasury Board suggested that the proposed work be left in abeyance. The Department then requested permission to contract for the supply of 55,000 tons of gravel which might later be required for the proposed work, pointing out that a contractor, who was currently working on the site, could probably supply the gravel at a considerable saving from the cost that would likely be incurred were a contractor brought into Frobisher at some later date for the specific purpose. It was also stated that if it transpired that the additional airfield facilities were not required, the Crown would have a supply of gravel which would eventually be required for other development and maintenance work in the area. On the basis of these representations, the Treasury Board authorized the Department to contract for the gravel, and the \$140,304 cost was charged to the appropriation or "Civil Aviation Branch—Construction or Acquisition of Buildings, Works, Land and Equipment" (Vote 446, as supplemented by Votes 654 and 747).

In the Audit Office view, it would have been more appropriate had the cost of the gravel been charged against the Department of Transport Stores Account, and a charge of Expenditure recorded only in a later fiscal year when the material is used.

Another case involving an overcharge to Vote 446 was the contract entered into by the Department of Transport in January 1957 for the supply and erection of curtain-wall

and fixed glass assemblies for the air terminal building at the Montreal International Airport at a fixed price of \$1,692,058. During the course of the construction, additional work estimated to cost \$56,899 was authorized, increasing the contract price to \$1,748,957. In April 1960 the contractor was declared bankrupt. By that time, the appropriation had been charged with \$1,639,088 for work completed, leaving \$109,869 to cover work still to be done. When the trustee in bankruptcy declined to complete the contract, negotiations with the general contractor on the air terminal building resulted in an offer by that contractor to complete the work for \$156,640. In giving its approval to the acceptance of this offer, the Treasury Board directed that \$109,869 would be chargeable to the appropriation for "Civil Aviation Branch—Construction or Acquisition of Buildings, Works, Land and Equipment" and the balance recoverable from funds retained in the security deposit and holdback accounts in the name of the trustee (which amounted to \$111,012).

Notwithstanding this direction, the full amount of \$156,640 was recorded against Vote 446 which was therefore overcharged to the extent of \$46,771. It should be noted, however, that up to the time of the audit the credits in the accounts in the trustee's name had not been paid out to him.

79. *Route facility fees receivable from airlines.* Prior to the introduction of a route facility fee, the trans-oceanic landing fee was intended to cover both airport and route facilities provided by Canada for North Atlantic and Polar flights. In recent years a change in the air traffic pattern across the North Atlantic has resulted in airlines operating non-stop flights across Canadian territory, while taking advantage of the route facilities provided by Canada for the operation and safety of the flights. The resulting loss of landing fee revenue has contributed towards a steady increase in the net cost of maintaining the route facilities. In November 1960 Executive regulations made under the authority of section 18 of the Financial Administration Act provided for the assessment of a fee of \$64, retroactively to January 1, 1960, for each trans-Atlantic flight, Polar flight, or both, with the proviso that in the event of a landing at a Canadian airport, the trans-oceanic landing fee would be reduced by the amount of the route facility fee.

A number of foreign airlines have objected to the assessment of the route facility fee and have declined to settle accounts rendered by the Department of Transport. The fact that the regulations provide for a reduction in the trans-oceanic landing fee by the amount of the route facility fee has been taken into consideration by several airlines who have refused the assessment only in respect of flights not landing in Canada. Others have however, refused payment in respect of all flights, including those landing in Canada with the result that they have been paying less in fees than they had done before the route facility fee was introduced.

By March 31, 1961, balances carried on the records of the Department of Transport as owing by ten airlines, in respect of route facility fees assessed by the Department under the regulations, amounted to \$1,284,000, and the total was increasing at the rate of approximately \$100,000 monthly.

80. *Large fee paid on target price contract.* In June 1956 the Department of Transport invited tenders for construction of a 5000 foot airport runway, taxiway and parking apron at Inuvik, N.W.T. As the only tender received was for \$9,900,000, compared with

a departmental estimate of \$5,500,000, the Department negotiated with the tenderer. As a result, a contract for a shorter runway was entered into in October 1956, under which the contractor was to be paid for actual costs incurred together with a fixed fee of \$500,000 and 30 per cent of any saving in cost below a target price of \$5,000,000.

In May 1958, the Treasury Board approved amendments to the contract (a) to provide for an extension to the runway, (b) to change the basis of payment for work remaining to be done to firm unit prices for estimated quantities, and (c) to set the target price for work completed prior to May 1, 1958 at \$4,032,020. In 1959 this target price was increased to \$4,233,028, with Executive approval, on the basis of "the finalized quantity figures involved".

The final payment under the overall contract was made during the year under review. The net cost of the work performed prior to May 1, 1958 was \$3,049,711, calculated as follows:

Construction costs		\$ 1,925,896
Less—		
Value of material delivered to another department	\$ 80,185	
Proceeds of insurance claim	17,422	
		<u>97,607</u>
Net construction cost		1,828,289
Fee:		
Fixed	500,000	
Bonus (30% of savings under the target price of \$4,233,028)	721,422	
		<u>1,221,422</u>
		<u>\$ 3,049,711</u>

As a fee of \$1,221,422 appeared to have been an extraordinarily large one in relation to the \$1,828,289 net construction cost of the work performed to this point, the Department was asked whether the contractor had been approached to waive entitlement to any part of it. The reply left this question unanswered but it did point to circumstances which the Department felt demonstrated that it had acted in a reasonable manner. Thus, it was pointed out that there had been several renegotiations of the original contract, including that referred to above, after it became evident by the end of 1957 that costs would be lower than had been estimated; and that a further assessment of the situation in the winter of 1958-59 had resulted in successful negotiations for a reduction in certain unit prices on the work remaining to be done. It was also pointed out that when the overall project had been completed, it included a 6000 foot runway constructed at a total cost of \$5,380,000, compared with the tender of \$9,900,000 and the departmental estimate of \$5,500,000 for a 5000 foot runway.

81. *Assistance given under the Veterans' Land Act.* A few instances have been noted in the audit where assistance had been given to veterans under the Veterans' Land Act, c. 280, R.S., as amended by c. 66, 1953-54 and c. 37, 1959, when their financial circumstances were such as to raise some doubt as to whether the assistance was in harmony with the intent of the legislation. This, as indicated by the preamble to the Act, is to

provide assistance as a measure of rehabilitation for veterans who "have limited financial assets and the lack of such assets has proved to be the main obstacle in the fulfilment of settlement contracts and to the acquirement of farm home ownership". The following case will serve to illustrate the situation.

A veteran was established on a farm in 1945 and was advanced the maximum sum of \$4,400 allowed under section 15 of the Act, on the security of land owned by him. In 1954 he made application to change his contract and to be brought under section 10 of the Act, which provides for financial assistance of up to \$6,000 on the sale of land and property to a veteran and has, as an attractive feature, the convertibility of a substantial portion of the assistance given into a grant upon fulfilment of the terms of the contract for ten years. The application was initially rejected by the Department but subsequent representations resulted in a change in the contract being ultimately effected as from January 1, 1959.

In September 1960 the veteran applied for a loan under the "farm improvement assistance" section of the Act (Part III) for the purpose of building a grain storage and handling facility, but his application was refused by the Department on the grounds that the cost of building, maintaining and operating the type of facility contemplated would be uneconomic in relation to the size of his herd. Further representations by and on behalf of the applicant resulted in a loan of \$15,179 being approved in November 1960 on the basis that the loan was to consolidate his debts. This, it was stated, would improve his financial position and might permit the extension of private credit and let him build the grain facility "on his own resources". Departmental files indicate that at the time of his application for this loan, the veteran's net worth was \$102,000 and his annual gross income \$33,000.

82. *Educational leave.* The Civil Service Regulations provide for the granting of educational leave

- (a) with full pay where it has not been found possible to obtain a qualified person for a specialized position and it is considered that an employee could, after further special training at a university, perform the duties of the position efficiently;
- (b) with full pay for a period up to three months where courses are provided at a university as refresher courses or courses of special instruction to benefit civil servants; tuition fees and living expenses may also be paid;
- (c) with half pay when an employee who is directed to carry out a research project at a university because of special facilities there, or to do any departmental work at a university, desires to seek academic credit for further studies in his field while at the university;
- (d) without pay for the purpose of attending university if it is considered that the proposed course will be of material assistance to the employee in increasing his efficiency and gaining advancement in the service.

The Civil Service Commission has reported that during 1960, 185 employees were given leave to attend university, 38 without pay, 54 with full pay and 93 with half pay.

Included in the last group were employees who did not qualify for payments under the Civil Service Regulations and for whom the Treasury Board approved payment of non-accountable allowances equivalent to one-half their salaries.

The cost of salaries and allowances together with tuition and living expenses of employees on educational leave during 1960 has been estimated by the Commission at \$500,000. Periods of educational leave often extend over several years and, while an employee who has been granted leave understands that he is expected to return to the service of the federal government for a period of time equivalent to that for which leave has been approved, there is no guarantee that he will do so, and no provision for the recovery of any portion of the outlay should he not return to duty.

A case was noted where an employee was granted leave to complete a doctoral thesis and received \$8,134 in half pay or allowances from September 22, 1958 to August 31, 1960, when he resigned to assume a professorship. Payments on the basis of half pay made to him by his department during his absence were increased by a promotion, an annual increase and a salary revision, and he accumulated pensionable service for superannuation purposes, the Government continuing to pay matching contributions to the superannuation account. Moreover, in this period he also received remuneration from the university as a research assistant.

The extent of the educational program seems to warrant special provision of funds by Parliament to assist persons attending university (often in a foreign country), rather than the inclusion of the cost with the salaries and expenses of employees on duty in the various departments.

83. *Cost of gasoline used in departmental motor vehicles at Ottawa.* A survey of gasoline purchases in Ottawa by a number of departments showed considerable variation in the prices being paid. Several departments were paying from 11.7 to 17.1 cents per gallon more than the price for which the Department of National Defence was able to provide gasoline to the Comptroller of the Treasury's Office. Accordingly the Audit Office raised the question of the feasibility of supplying gasoline and oil for all government vehicles in Ottawa from a central supply point, e.g., National Defence, and the matter has been referred to the Government Motor Vehicle Committee for consideration. Advice regarding a decision has not yet been received.

84. *Unpaid accounts carried forward to new fiscal year.* The following cases are commented upon for the reason that Parliament was not asked for supplementary 1960-61 appropriations to cover extra cash requirements, with the result that accounts remained unpaid at the year-end and became recorded as expenditure in the 1961-62 fiscal year:

1. As the 1960-61 fiscal year progressed it became apparent to the Department of National Defence that, although commitment authorities would not be exceeded, there would be insufficient funds available in the appropriation for "R.C.A.F. Construction or Acquisition of Buildings, Works, Land and Major Equipment" (Vote 225) to pay accounts coming in course of payment, due largely to a speed-up in the CF-104 aircraft program. A supplementary appropriation of \$15,000,000 was accordingly requested by the Department, but the amount was reduced to \$10,000,000 by the Treasury Board

and the supplementary appropriation (Vote 707) granted in due course was for that amount. This proved to be insufficient (as, indeed, \$15 million would also have been) and unpaid accounts totalling \$11,333,000 for goods received and services rendered before the close of the fiscal year were carried forward and paid from the 1961-62 appropriation.

2. When it seemed likely to the Department of National Defence that, although commitments had been entered into with due authority, an insufficient balance would remain in the appropriation for "Defence Research Board—Construction or Acquisition of Buildings, Works, Land and Equipment" (Vote 227) to meet accounts as they became payable, the Department requested a supplementary appropriation of \$290,000. The request was, however, not supported by the Treasury Board and, lacking this, no supplementary appropriation was provided. As a result, unpaid 1960-61 accounts totalling \$111,000 had to be carried forward as a charge to the 1961-62 appropriation.
3. Early in 1960 the Department of Public Works advertised for tenders for the construction of extensions to the Applied Physics Laboratories of the National Research Council. On the basis of the lowest tender of \$2,978,700, which was acceptable, it was anticipated that about \$2,000,000 would be expended on the work during the 1960-61 fiscal year, but when the Department requested the Council to arrange for the transfer of funds to cover the anticipated outlay to March 31, 1961 it was informed that only \$800,000 had been provided for the project in the Council's construction vote. The Department then informed the contractor that he could either time the work to suit himself or proceed as originally planned with the understanding that he could not be paid for the value of work done in excess of about \$800,000 until additional funds were made available by Parliament. He chose the latter alternative and a contract was awarded on April 20, 1960. By March 31, 1961 the contractor had presented progress claims totalling \$1,642,956 and payments of \$837,424 were made on account and charged to the Council's 1960-61 appropriation for "Construction or Acquisition of Buildings, Works, etc." (Vote 257, supplemented by Votes 535 and 607), thus leaving an obligation of \$805,532 to be carried forward as a charge to the 1961-62 appropriation.

Another case was noted where unpaid amounts were carried forward to the new fiscal year, though not for the reason that an insufficient balance remained in the appropriation affected. Requisitions for overtime pay to its employees for 1960-61, which were submitted by the Civil Service Commission at the year-end, were questioned by the Comptroller of the Treasury and were not processed in time to be recorded as a charge to the Commission's 1960-61 appropriation for salaries and contingencies (Votes 65, 667 and 121). Payments were made in June 1961 to a total of \$27,085, as a charge against the 1961-62 appropriation.

85. *Losses reported in the Public Accounts.* Section 98 of the Financial Administration Act directs that "every payment out of the Public Officers Guarantee Account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the Public Accounts". The statement of losses included in the Public Accounts for 1960-61 was examined and it was ascertained that every loss during the year, which had been observed in the audit as being of a nature requiring to be reported in the Public Accounts, is included in the listing.

In its Fifth Report, 1961 (paragraph 73) the Public Accounts Committee recommended:

"that, in future, statements be included annually in the Public Accounts, listing Post Office losses and showing recoveries effected, in a manner similar to other departments".

As a result of this recommendation, Post Office losses are, for the first time, reported for the 1960-61 fiscal year in the same manner as losses of other departments.

86. *Non-productive payments.* Paragraph 71 of the Fifth Report, 1961, of the Public Accounts Committee reads:

"The Committee gave consideration to the extent to which it felt it would wish to be informed regarding non-productive payments in future. Although it recognized the difficulty that would be involved in defining a 'non-productive payment', it came to the conclusion that information regarding such payments would be of value, and it accordingly requests the Auditor General, in his future annual reports to the House of Commons, to include listings of any such payments that might have come to his notice in the course of his audit."

In accordance with the foregoing request, a listing is given below of the payments that, in the absence of a precise definition, might be regarded as non-productive in character which were observed in the course of the audit of departmental expenditure accounts during the fiscal year 1960-61:

1. On November 2, 1959 contracts were entered into by the Department of Defence Production for the removal of snow during the 1959-60 winter season, at the rifle range and armouries in Sherbrooke, at a total estimated cost of \$12,500. Shortly afterwards, complaints were made to the Department's local agent about the manner in which the snow removal contracts had been awarded, it being alleged that the contractor had given a false address to represent himself as a Sherbrooke resident while in fact he lived some 25 miles outside the city. In January 1960, after work to the value of about \$3,500 had been performed, the contracts were terminated and awarded to a Sherbrooke contractor. The former contractor thereupon filed a petition of right claiming compensation of \$6,000 for losses which he had sustained as a result of the termination of the contracts. On the recommendation of the Department of Justice, the case was settled out of court for \$2,500.
2. Following the outbreak of hostilities in Korea in 1950, substantial quantities of cloth were purchased by the Department of Defence Production and, in order to provide suitable storage facilities, a warehouse in Montreal was rented by the Department in 1952 at an annual cost of \$136,400. In the intervening years, there was a considerable reduction in the quantities of cloth held in storage and early in 1960 the remaining holdings—then largely surplus to requirements—were transferred to the Department of National Defence. The lease for the vacated premises, last renewed on June 1, 1957, does not expire until May 31, 1962. A portion of the space was rented to the Department of National Defence for the purpose of storing aircraft tooling and this resulted in \$92,000 being recovered by the Department of Defence Production, but intensive efforts to find sub-tenants for the remainder of the space were unsuccessful and the landlord has refused to surrender any of his rights under the lease. Consequently, in the year under review he was paid the full rental of \$136,400. In addition, maintenance expenditures of \$17,600 were incurred. The net cost of the unused space thus amounted to \$62,000 during the year.

3. The Ground Observer Corps was disbanded by the Department of National Defence in the summer of 1960. The leases of buildings that had been used by the Corps at three locations ran on into 1963 and, since efforts to sublet have proved fruitless, rents are being paid, and may have to continue to be paid until the expiry dates, at the rate of about \$28,000 a year.
4. A firm price contract for \$16,043 was entered into for the Department of National Defence in February 1956 for the design and manufacture of cabinets to house electronic communication equipment at three Naval establishments and a design was made based on information supplied by the Department. Several months later, when additional technical data was made available to the contractor, he found that the design had to be scrapped because the equipment would not fit the proposed cabinets. The cabinets were redesigned but, in April of the following year, it was brought to light that the equipment at one of the establishments differed materially from that at the other two, and a completely new design therefore became necessary for that unit. At this point the contract price was increased to \$25,416. However, as the work progressed additional costs were incurred as a result of the changes in design and the contractor sought a further increase in price. During the year under review a final amendment was issued in the amount of \$37,121 on the basis of costs established by cost audit. The end result was that the contractor was paid an additional \$21,000 mainly because of the inadequate and faulty information with which he had been provided.
5. A contractor was awarded a series of 11 contracts amounting to \$264,545 for chapel furniture in 1954, to be delivered to various Air Force stations. Inspection was carried out at the factory but, after some of the furniture had been received and installed by the Air Force, defects became apparent and the work was suspended for a period of about eight months. In a petition of right filed in August 1959 the contractor claimed that the furniture had been fabricated according to specifications and that extra costs had been incurred due to unjustified interruption of deliveries and shop operations by representatives of the Department of National Defence. The claim was settled out of court for \$32,782, on the recommendation of the Department of Justice, during the year under review.
6. In March 1958 a contract was placed for the Department of National Defence for the supply of 51,897 leakproof metal boxes at a total cost of \$97,866 for use by Canadian Arsenals Limited, and testing equipment considered by the Inspection Services Division to be suitable for checking conformity with the leakproof requirement was set up and used. About a year later, after 29,400 of the boxes had been produced, tested and delivered, it was found that approximately 30% of them leaked. Production was stopped and the contractor was required to develop new testing equipment and to rework the completed and partially completed boxes in his plant. In due course the contractor submitted a claim for the additional costs incurred as a result of the general slowdown in production brought on by the more critical testing requirements and he was paid an additional \$44,507.
7. In October 1959 a contract was placed for the Department of National Defence for the construction of a retaining wall, using the wire basket method, at Osborne Head Gunnery Range, Halifax, at a cost of \$17,450. After installing about 5% of the baskets the contractor stopped work in December 1959, with departmental consent, because of winter storms. Early in March of the following year the installation was examined and it was found that the baskets were in a badly damaged state as a result of wave action. The project was thereupon abandoned at a cost of \$6,830.

8. Generally, weather conditions in the North limit the road building season to the months of June, July and August. The National Defence Department's construction program for 1959-60 included provision for reconstruction and paving of 50 miles of the Alaska Highway at an estimated cost of \$3,000,000, with the work expected to be completed in two seasons. A "request for contract" was not issued by the Department until April 23, 1959 and a submission to Treasury Board for approval of a contract was not made until June 18, 1959. When the Treasury Board requested a reassessment of the cost, on the grounds that the paving costs were too high, it was not until August 13, 1959 that the Board's approval was given. Although work was then commenced without delay, the greater part of the 1959 season was lost and, it being impossible to complete the work during 1960, it had to be carried on into a third season. As a result, the contract that had been entered into with a firm of consulting engineers for engineering supervision had to be extended and the additional cost amounted to \$39,500.
9. Three instances were observed where there were lengthy delays between the manufacture of boilers for central heating plants and the completion of the buildings to house them, with the result that the boiler manufacturers had to be paid storage together with reconditioning and other costs by the Department of National Defence. In one case a delay of 22 months occurred by reason of changes in and modifications to the heating system, and the manufacturer was paid an additional \$11,467 for reconditioning the boilers and rescheduling his work to meet the new installation date. In another case the installation was delayed over two years due to substantial changes in the design of the plant and the contractor was paid an extra \$8,283 to cover his additional expenses arising from the delay. In the third case the manufacturer received \$3,491 for storage and other costs incurred by reason of a delay of about a year between the completion of the boiler and its actual installation. The extra costs thus incurred in the three cases totalled \$23,241.
10. Of 205 electrical batteries manufactured according to specifications of the Department of National Defence, 196 proved to be faulty in use and were returned to the contractor for rectification and modification at an additional cost of \$12,981. The departmental file indicates that the additional cost was incurred as a result of the Department's failure to give the contractor suitable supervision and inspection service.
11. In October 1957 Treasury Board approval was given for the construction at a cost of \$44,760 of two residences at Pigeon River, Ontario, for the use of Customs-Excise officers, bringing to four the number of Customs-Excise residences at the Port. One of the officers for whom a residence was being built was transferred and was replaced by an unmarried man. The house has never been occupied and the Department has been paying the cost of fuel oil and electricity in addition to the regular expenses of upkeep, including painting of the exterior. From information on file, the four houses, together with two residences occupied by officers of the Department of Citizenship and Immigration, are to be moved to a new housing site, the preliminary estimate of the cost of moving the six houses being approximately \$40,000.
12. In 1955 the Department of Public Works entered into a contract for the preparation of plans and specifications and the subsequent supervision of construction of buildings in the Confederation Heights development at Ottawa. As the work progressed the architects were requested to prepare revised plans covering a number of proposed structural changes. Ultimately it was decided not to proceed with the alterations. In May 1960 a payment of \$12,737 was made for services rendered in the preparation of the unused plans.

13. Early in 1957 the Department of Public Works entered into an agreement with a firm of consulting engineers for the preparation of plans and specifications for and subsequent supervision of the construction of a postal station at Toronto. After sketch drawings had been prepared, changes in proposed occupancy established that a much smaller building would be required and the original plan was abandoned. During the year under review a payment of \$11,800 was made to the consultants as a fee for the work they had done.
14. In October 1959 the Department of Public Works entered into a contract at a fixed price of \$318,542 for the construction of a public building, consisting of a basement and two storeys, at Elliot Lake, Ontario. In February 1960, by which time the contractor had completed the foundation work and acquired materials, it was considered that, in view of the decline in the economic outlook for the community, the space to be provided by the building as planned would be in excess of likely future requirements. The Department therefore decided to eliminate the second storey, at an estimated saving of from \$50,000 to \$75,000, and the contractor was accordingly instructed to cease operations until revised plans could be prepared. Because of the time involved in revising the plans and negotiating with the contractor, it was not until the following October that agreement was reached on a fixed price of \$338,368 for the altered structure. Although a saving of \$37,021 from the elimination of the second floor entered into this calculation, it was more than offset by provision of \$20,512 for additional costs in connection with revised partitioning, added overhead expenses of \$21,535 because of the delay to which the work had been subjected, and \$14,800 to cover the extra cost of carrying the work through a second winter. Consequently, the net result of constructing a one-storey building rather than the two-storey structure originally planned will be an increase in cost of almost \$20,000.
15. In May 1960 the Department of Public Works entered into a contract for harbour improvements, consisting principally of the construction of a cribwork structure at Etang du Nord, Quebec, at a price of \$176,230. Shortly after the project was started some local fishermen, who had earlier expressed satisfaction with the plans, raised strong objections to the location of the proposed structure and impeded the launching of the first crib by placing boats at the foot of the launching slipway. Work was stopped for about a month, after which the contractor was instructed to recommence operations. When his attempt to do so was again impeded, he was notified by the Department that the contract had been terminated. In February 1961 the contractor's claim was settled for \$144,362, including \$96,147 for unused materials which the Department proposes to use on another project in the area. The net result was therefore a non-productive outlay of \$48,215.
16. In 1957 the Department of Public Works entered into a contract for the construction of a public building at Belleville. In January 1961 three "delay claims" submitted by the contractor were settled for \$28,022, as follows:
- | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| (1) Expenses incurred and equipment rental during six weeks of delay while the Department settled certain matters relating to the building site to the satisfaction of the Municipality | \$ 10,088 |
| (2) Expenses and equipment rental during two weeks of delay while waiting for the Department to arrange with the local utilities commission to move transformers located on the site | 4,514 |
| (3) Additional costs incurred when delay occasioned by revision of drainage system made it impractical to use explosives for the excavation of rock | 13,420 |
| | <u>\$ 28,022</u> |

17. A contract was entered into by the Department of Defence Production in the early part of 1954 for the construction of a patrol vessel for the Royal Canadian Mounted Police at a fixed price of \$198,814. Supervision of the construction was undertaken by the Navy. Although the contract provided for completion of the vessel in nine months, delivery did not take place for almost three years. The delay was regarded as being due to circumstances largely beyond the contractor's control, including delays in the preparation of drawings, design changes and priority given to other contracts. The contractor claimed for extra costs resulting from these delays and, during the year under review, he was paid a compensation settlement of \$31,703.

Summary of Assets and Liabilities

87. Section 64 of the Financial Administration Act requires that there be included in the Public Accounts a statement certified by the Auditor General of "such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

88. The Statement of Assets and Liabilities for the year ended March 31, 1961, with comparable figures at the end of the preceding year, prepared and certified in accordance with the foregoing requirement, is given as Appendix 2 to this report. The Statement was prepared on a modified cash basis, as in previous years, explanations regarding certain aspects of this basis of presentation being included in the Public Accounts, as follows:

"With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of \$1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.

"On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the 'Current and demand liabilities' schedule of the statement of assets and liabilities."

Assets

89. The following table lists the assets at March 31, 1961 by main headings in the statement of Assets and Liabilities (Appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

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	March 31, 1959	March 31, 1960	March 31, 1961
Current assets	\$ 910,944,000	\$ 862,147,000	\$ 784,348,000
Advances to the Exchange Fund Account ..	1,995,000,000	1,960,000,000	2,024,000,000
Sinking fund and other investments held for retirement of unmatured debt	83,214,000	85,272,000	17,018,000
Loans to and investments in Crown corporations	3,271,061,000	3,446,662,000	3,627,733,000
Loans to national governments	1,448,960,000	1,414,528,000	1,378,196,000
Other loans and investments	683,056,000	934,471,000	1,022,106,000
Securities held in trust	20,742,000	30,612,000	30,042,000
Deferred charges—			
Unamortized portion of actuarial deficiencies	465,300,000	465,300,000	602,961,000
Unamortized loan flotation costs	147,431,000	150,993,000	130,741,000
Suspense accounts	2,000	33,000	136,000
Inactive loans and investments	92,216,000	93,539,000	94,825,000
Total Assets	9,117,926,000	9,443,557,000	9,712,106,000
Less—Reserve for losses on realization of assets	546,384,000	546,384,000	546,384,000
Net Assets	\$ 8,571,542,000	\$ 8,897,173,000	\$ 9,165,722,000

90. *Current assets.* The balances included under this heading at March 31, 1961, with the comparable balances at the close of the two previous years, were:

	March 31, 1959	March 31, 1960	March 31, 1961
Cash	\$ 640,459,000	\$ 565,436,000	\$ 486,760,000
Departmental working capital advances and revolving funds:			
Agricultural commodities stabilization account ..	67,078,000	120,698,000	90,198,000
Defence production revolving fund	30,161,000	20,667,000	15,651,000
Other	54,743,000	54,645,000	65,234,000
	151,982,000	196,010,000	171,083,000
Securities investment account	98,031,000	77,863,000	101,454,000
Other current assets	20,472,000	22,838,000	25,051,000
	\$ 910,944,000	\$ 862,147,000	\$ 784,348,000

The decrease of \$30,500,000 in the Agricultural Commodities Stabilization Account at March 31, 1961 compared with the corresponding balance at the end of the preceding year was accounted for by a decrease of \$53,190,000 in the inventory of pork, offset in part by an increase of \$24,707,000 in the inventory of butter held by the Agricultural Stabilization Board.

The \$101,454,000 balance of the Securities Investment Account records, at amortized cost, temporary holdings by the Minister of Finance consisting of securities of Canada, under the authority of section 17 of the Financial Administration Act. These holdings with a par value of \$105,725,000, had a market value of \$99,298,000 at March 31, 1961.

91. *Advances to the Exchange Fund Account.* This Account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the Minister from time to time for the purposes of the Account within the maximum

(\$2,100,000,000 at March 31, 1961) authorized by the Governor in Council under section 23 of the Currency, Mint and Exchange Fund Act, c. 315, R.S. The advances to the Account at March 31, 1961 are included in the Statement of Assets and Liabilities at their full amount of \$2,024,000,000. A parenthetical note associated with the item explains that the market value of investments from advances was \$1,869,958,000 at March 31, 1961, indicating an unrecorded deficiency of \$154,042,000.

Comment is made in paragraph 111 regarding the practice of carrying advances to the Exchange Fund Account in the Statement of Assets and Liabilities at the full amount of the advances made, without adjustment for the deficiency that has accumulated over the years.

92. *Sinking fund and other investments held for retirement of unmatured debt.* The following is a summary of the balances comprising this item at March 31, 1961 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1959	March 31, 1960	March 31, 1961
Investments held for sinking fund maintained with respect to Newfoundland loans assumed under Terms of Union	\$ 14,931,000	\$ 15,960,000	\$ 17,018,000
Additional investment in Newfoundland guaranteed stock held for retirement of Newfoundland loans	18,811,000	19,822,000	
Investments held for retirement of loans payable in New York	49,472,000	49,490,000	
	<u>\$ 83,214,000</u>	<u>\$ 85,272,000</u>	<u>\$ 17,018,000</u>

During the year under review, the Newfoundland guaranteed stock, other than that held for the sinking fund, was cancelled, as were the holdings of the New York loans, in order to retire those portions of Canada's unmatured debt.

93. *Loans to and investments in Crown corporations.* The following table lists these loans and investments at March 31, 1961 with the comparable balances at the close of the two previous years:

	March 31, 1959	March 31, 1960	March 31, 1961
Central Mortgage and Housing Corporation.	\$ 1,003,576,000	\$ 1,318,683,000	\$ 1,510,711,000
Canadian National Railways	1,468,179,000	1,207,808,000	1,092,590,000
The St. Lawrence Seaway Authority	282,819,000	315,927,000	339,927,000
National Harbours Board	145,632,000	161,398,000	172,770,000
Northern Ontario Pipe Line Crown Corporation	113,500,000	121,500,000	123,750,000
Farm Credit Corporation	87,219,000	115,700,000	155,754,000
Atomic Energy of Canada Limited	58,789,000	59,374,000	60,930,000
Northern Canada Power Commission	21,639,000	34,585,000	40,008,000
Polymer Corporation Limited	30,000,000	30,000,000	30,000,000
Canadian Overseas Telecommunication Corporation	12,979,000	22,590,000	31,686,000
National Capital Commission	7,100,000	17,742,000	25,232,000
Other balances	39,629,000	41,355,000	44,375,000
	<u>\$ 3,271,061,000</u>	<u>\$ 3,446,662,000</u>	<u>\$ 3,627,733,000</u>

The increase of \$192 million in the amount shown for Central Mortgage and Housing Corporation during the year ended March 31, 1961 is largely accounted for by advances of \$222 million during the year, pursuant to section 22 of the Central Mortgage and Housing Corporation Act, c. 46, R.S., less repayments of \$38 million in respect of advances made under the section in previous years.

The reduction of \$115 million in the amount shown for Canadian National Railways was accounted for by repayments of \$306 million of previous years' advances, offset to the extent of \$170 million by advances to the company under annual Canadian National Railways Financing and Guarantee Acts, and to the extent of \$21 million by a further investment in 4% preferred stock in the company pursuant to section 6 of the Canadian National Railways Capital Revision Act, c. 311, R.S. Of the \$306 million of repayments of previous years' advances, an amount of \$221 million was through the proceeds of sales of the company's bonds to the public.

The increase of \$40 million in the amount for the Farm Credit Corporation was accounted for by further loans of \$39 million under the Farm Credit Act, c. 43, 1959, and by an increase in the capital of the Corporation from \$5 million to \$6.4 million.

94. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1961 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1959	March 31, 1960	March 31, 1961
Belgium	\$ 41,526,000	\$ 39,219,000	\$ 36,912,000
France	160,550,000	152,100,000	143,650,000
India	33,000,000	33,000,000	29,546,000
Netherlands	84,340,000	79,177,000	74,013,000
United Kingdom	1,124,703,000	1,108,287,000	1,091,544,000
Other countries	4,841,000	2,745,000	2,531,000
	<u>\$ 1,448,960,000</u>	<u>\$ 1,414,528,000</u>	<u>\$ 1,378,196,000</u>

95. *Other loans and investments.* The balances comprising this asset item at March 31, 1961, with the comparable balances at the end of the two previous years, were:

	March 31, 1959	March 31, 1960	March 31, 1961
Subscriptions to capital of and working capital advances and loans to international organizations	\$ 369,916,000	\$ 605,175,000	\$ 631,127,000
Veterans' Land Act advances	192,857,000	188,903,000	199,644,000
<i>Less—Reserve for conditional benefits</i>	<i>41,857,000</i>	<i>37,277,000</i>	<i>33,552,000</i>
	<i>151,000,000</i>	<i>151,626,000</i>	<i>166,092,000</i>
Loans to provincial governments	96,339,000	90,397,000	84,827,000
Loans to Unemployment Insurance Commission ..			67,000,000
Loans to Old Age Security Fund		28,001,000	17,283,000
Balances receivable under agreements of sale of			
Crown assets	19,105,000	15,982,000	12,094,000
Other balances	46,696,000	43,290,000	43,683,000
	<u>\$ 683,056,000</u>	<u>\$ 934,471,000</u>	<u>\$1,022,106,000</u>

The following is a listing of the balances comprising the \$631,127,000 shown for the first item in the above table as at March 31, 1961:

Subscriptions to capital:

International Monetary Fund	\$ 543,697,000
International Bank for Reconstruction and Development	73,680,000
International Development Association	8,506,000
International Finance Corporation	3,522,000

629,405,000

Working capital advances 1,722,000

\$ 631,127,000

During the year ended March 31, 1961, Canada's subscription to the International Monetary Fund was increased by \$15,000,000 as a result of revaluation adjustments in the Canadian dollar balance on the basis of the ruling rate of exchange for the United States dollar as at January 31, 1961. The \$8,506,000 subscription to the International Development Association was made during the year.

The \$17,283,000 of loans to the Old Age Security Fund at March 31, 1961 represented the balance of temporary loans made in the preceding year under section 11 of the Old Age Security Act, c. 200, R.S. The following is a summary of the transactions relating to the Fund during the year in comparison with the corresponding amounts for the two previous years:

	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
Collections of tax			
On sales	\$ 173,623,000	\$ 270,000,000	\$ 270,231,000
On personal incomes	146,350,000	185,550,000	229,400,000
On corporation incomes	55,328,000	91,336,000	103,500,000
	<u>375,301,000</u>	<u>546,886,000</u>	<u>603,131,000</u>
Payments of pensions under the Old Age Security Act	559,280,000	574,887,000	592,413,000
Surplus or (deficiency) during year	<u>(\$183,979,000)</u>	<u>(\$ 28,001,000)</u>	<u>\$ 10,718,000</u>

96. *Securities held in trust.* The \$30,042,000 of balances comprising this item in the Statement of Assets and Liabilities at March 31, 1961 is mainly accounted for by securities held for the following accounts: contractors' securities, \$12,438,000; guarantee deposits in respect of oil and gas permits, \$7,633,000; guarantee deposits in respect of customs duties and excise taxes, \$4,416,000; and pilots' pension funds, \$3,074,000.

97. *Unamortized loan flotation costs.* This item records the unamortized portion of the cost of discounts and commissions incurred in the issuance of loans. The following is a summary of the transactions for the year under review:

Balance, April 1, 1960	\$ 150,993,000
Add: Costs incurred in issuing new loans during the year	34,042,000
	<u>185,035,000</u>
Deduct: Amortization charges included in 1960-61 Expenditure	54,294,000
Balance, March 31, 1961	<u>\$ 130,741,000</u>

98. *Unamortized portion of actuarial deficiencies.* The amounts appearing under this heading in the Statement represent the extent to which the balances at credit of the Public Service Superannuation Account and the Canadian Forces Superannuation Account—exclusive of the bookkeeping credits referred to in paragraphs 113 and 114—fell short of the estimated actuarial liabilities of the two pension plans, calculated as at December 31, 1957 and March 31, 1958, respectively.

In last year's report, the Audit Office view was put forward that there should be a plan, approved by Parliament, for amortizing the balances of these two actuarial deficiencies (aggregating \$602,961,000 at March 31, 1961, compared with \$465,300,000 at the close of the preceding year) if they are to continue to be carried as "assets" on the Statement and if the offsetting credits are to remain in the two superannuation accounts.

99. *Inactive loans and investments.* The \$94,825,000 shown for this item in the Statement at March 31, 1961 comprised the following balances:

Loan to China, in 1946, under the Export Credits Insurance Act	\$ 49,426,000
Loans to Greece and Roumania, in 1919, for the purchase of goods produced in Canada	30,855,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company (carrying prior guarantee by the Government of China)	14,470,000
Loan to Province of Saskatchewan, in 1908, for the purchase of seed grain	74,000
	<hr/>
	\$ 94,825,000
	<hr/>

The amount shown for the third item in the above listing is \$1,285,000 greater than the corresponding amount of \$13,185,000 at March 31, 1960 by reason of the final payment, covering \$1,275,000 of principal and \$10,000 of interest, made during 1960-61 under the terms of the guarantee.

Liabilities

100. The following table lists the liabilities at March 31, 1961 by main headings in the Statement of Assets and Liabilities (Appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

	<u>March 31, 1959</u>	<u>March 31, 1960</u>	<u>March 31, 1961</u>
Current and demand liabilities	\$ 952,560,000	\$ 1,099,057,000	\$ 1,147,561,000
Deposit and trust accounts	237,917,000	242,673,000	239,667,000
Annuity, insurance and pension accounts ..	3,301,861,000	3,565,376,000	3,955,510,000
Undisbursed balances of appropriations to special accounts	83,387,000	96,620,000	104,493,000
Deferred credits	81,429,000	83,961,000	79,073,000
Suspense accounts	18,664,000	8,528,000	8,618,000
Unmatured debt	15,574,113,000	15,890,152,000	16,067,915,000
	<hr/>	<hr/>	<hr/>
	\$ 20,249,931,000	\$ 20,986,367,000	\$ 21,602,837,000
	<hr/>	<hr/>	<hr/>

101. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1961, in comparison with the corresponding balances at the close of the two previous years, were:

	March 31, 1959	March 31, 1960	March 31, 1961
Non-interest-bearing notes payable to the International Monetary Fund and the International Development Association ..\$	200,000,000	\$ 376,000,000	\$ 383,660,000
Accounts payable	256,402,000	245,099,000	221,396,000
Outstanding Treasury cheques	247,305,000	228,768,000	251,741,000
Interest accrued	124,893,000	137,622,000	154,016,000
Other balances	123,960,000	111,568,000	136,748,000
	<u>\$ 952,560,000</u>	<u>\$ 1,099,057,000</u>	<u>\$ 1,147,561,000</u>

102. *Deposit and trust accounts.* The following is a listing of the balances included in this item at March 31, 1961 in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1959	March 31, 1960	March 31, 1961
United States of America	\$ 42,205,000	\$ 33,927,000	\$ 36,686,000
Indian trust funds	28,651,000	29,224,000	28,516,000
Post Office Savings Bank	34,156,000	29,372,000	28,513,000
Contractors' security deposits	33,481,000	27,705,000	22,032,000
Deposits by Crown corporations	15,330,000	19,269,000	19,400,000
Korean operations pool	7,384,000	16,104,000	16,117,000
Contractors' holdbacks	18,160,000	17,398,000	15,635,000
Guarantee deposits	3,344,000	14,345,000	14,704,000
Canadian Pension Commission (Administration trust fund)	9,064,000	10,281,000	10,980,000
Other balances	46,142,000	45,048,000	47,084,000
	<u>\$ 237,917,000</u>	<u>\$ 242,673,000</u>	<u>\$ 239,667,000</u>

The \$47,084,000 shown for "other balances" in the above table represents the total of 72 balances including: collections on instalment purchases of Canada savings bonds for public service employees, \$11,845,000; Army Benevolent Fund, \$6,540,000; veterans' trust funds, \$5,808,000; National Harbours Board special accounts, \$5,738,000; deferred pay of Armed Forces personnel, \$2,671,000; National Research Council special fund, \$1,988,000, and War Claims Fund, \$1,584,000.

103. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1961, in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	March 31, 1959	March 31, 1960	March 31, 1961
Government annuities	\$ 1,105,825,000	\$ 1,156,867,000	\$ 1,199,123,000
Public Service Superannuation Account....	1,136,022,000	1,229,620,000	1,468,848,000
Canadian Forces Superannuation Account..	942,315,000	1,053,011,000	1,155,333,000
Other balances	117,699,000	125,878,000	132,206,000
	<u>\$ 3,301,861,000</u>	<u>\$ 3,565,376,000</u>	<u>\$ 3,955,510,000</u>

The following are summaries of the transactions in each of the accounts listed above during the year under review:

Government Annuities:

Balance, April 1, 1960		\$ 1,156,867,000
<i>Add:</i>		
Premiums received	\$ 48,877,000	
Interest credits	44,584,000	
		<hr/> 93,461,000
		1,250,328,000
<i>Deduct:</i>		
Vested annuity and commuted value payments and refunds	50,571,000	
Transfer to Revenue of the excess over Fund valuation..	634,000	
		<hr/> 51,205,000
Balance, March 31, 1961		<u><u>\$ 1,199,123,000</u></u>

Public Service Superannuation Account:

Balance, April 1, 1960		\$ 1,229,620,000
<i>Add:</i>		
Contributions by participants	\$ 48,771,000	
Contributions by Government	43,283,000	
Interest credits	51,254,000	
Credit to adjust to estimated actuarial liability as at December 31, 1957	137,661,000	
Other credits	173,000	
		<hr/> 281,142,000
		1,510,762,000
<i>Deduct:</i>		
Annuity payments	35,241,000	
Withdrawals of contributions	6,319,000	
Other charges	354,000	
		<hr/> 41,914,000
Balance, March 31, 1961		<u><u>\$ 1,468,848,000</u></u>

Canadian Forces Superannuation Account:

Balance, April 1, 1960		\$ 1,053,011,000
<i>Add:</i>		
Contributions by participants	\$ 31,858,000	
Contributions by Government	40,550,000	
Interest credits	43,432,000	
Other credits	296,000	
		<hr/> 116,136,000
		1,169,147,000
<i>Deduct:</i>		
Annuity payments	4,983,000	
Gratuities and withdrawal allowances	8,762,000	
Other charges	69,000	
		<hr/> 13,814,000
Balance, March 31, 1961		<u><u>\$ 1,155,333,000</u></u>

Comments on the year-end balances shown for the Public Service Superannuation Account and the Canadian Forces Superannuation Account are made in paragraphs 113 and 114 of this report.

Among the other balances included in the item "annuity, insurance and pension accounts" is the uninvested portion of the Unemployment Insurance Fund on deposit with the Receiver General—\$17,556,000 at March 31, 1961.

104. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances comprising this item in the Statement of Assets and Liabilities, compared with the corresponding balances at the close of the two previous years:

	March 31, 1959	March 31, 1960	March 31, 1961
Colombo Plan Fund	\$ 59,878,000	\$ 62,966,000	\$ 67,533,000
Railway Grade Crossing Fund	22,560,000	31,196,000	34,050,000
National Capital Fund	860,000	2,360,000	2,810,000
Other	89,000	98,000	100,000
	<u>\$ 83,387,000</u>	<u>\$ 96,620,000</u>	<u>\$ 104,493,000</u>

During the year ended March 31, 1961 an amount of \$50,000,000, provided by Vote 86 under the Department of External Affairs, was credited to the account for the Colombo Plan, while expenditures totalling \$45,433,000 were charged to the account for aid given to countries in South and South-East Asia.

Amounts totalling \$15,000,000, provided under section 265 of the Railway Act and Vote 453 under the Department of Transport, were credited to the account for the Railway Grade Crossing Fund during 1960-61, while expenditures totalling \$12,146,000 were incurred in aiding in the cost of installation of protective devices at railway grade crossings, grade separations and reflective markings on the sides of railway cars.

During the year ended March 31, 1961 an amount of \$3,450,000, provided by Vote 316 under the Privy Council Office, was credited to the account for the National Capital Fund, while amounts totalling \$3,000,000 were charged to the account for payments to the National Capital Commission to finance the cost of capital projects approved by the Governor in Council.

105. *Deferred credits.* The following is an analysis of this item at the close of the 1960-61 fiscal year and at the close of the two previous years:

	March 31, 1959	March 31, 1960	March 31, 1961
Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946	\$ 44,174,000	\$ 44,174,000	\$ 44,174,000
Deferred interest on loans to The St. Lawrence Seaway Authority	12,819,000	19,427,000	19,427,000
Credits arising from the recording of agreements of sale of Crown assets	16,387,000	13,554,000	9,955,000
Equity in agency account of Crown Assets Disposal Corporation	6,199,000	5,603,000	4,929,000
Other balances	1,850,000	1,203,000	588,000
	<u>\$ 81,429,000</u>	<u>\$ 83,961,000</u>	<u>\$ 79,073,000</u>

106. *Suspense accounts.* The only large balance included in this item on the liabilities side of the Statement of Assets and Liabilities at March 31, 1961 was that of \$4,586,000 at the credit of the Replacement of Materiel Account maintained pursuant to section 11 of the National Defence Act. Amounts credited to the Account during 1960-61 for the proceeds of sales to other countries of "materiel not immediately required" totalled \$3,963,000, while the amounts applied towards the procurement of materiel totalled \$3,000,000. There was accordingly an increase of \$963,000 in the balance of the Account during the year under review.

107. *Unmatured debt.* A summary of the unmaturred debt outstanding at March 31, 1961, in comparison with balances outstanding at the close of the two previous years, is as follows:

	<u>March 31, 1959</u>	<u>March 31, 1960</u>	<u>March 31, 1961</u>
Bonds:			
Payable in Canada	\$ 13,777,302,000	\$ 13,563,341,000	\$ 14,002,751,000
Payable in London	51,811,000	51,811,000	31,989,000
Payable in New York	150,000,000	150,000,000	98,175,000
	<i>13,979,113,000</i>	<i>13,765,152,000</i>	<i>14,132,915,000</i>
Treasury Bills	1,595,000,000	2,125,000,000	1,935,000,000
	<u>\$ 15,574,113,000</u>	<u>\$ 15,890,152,000</u>	<u>\$ 16,067,915,000</u>

Of the bonds outstanding at March 31, 1961, the following issues fall due within the succeeding fiscal year:

Loans of May 1, 1958 and October 1, 1959, due May 1, 1961	\$ 300,000,000
Conversion loan of September 1, 1958, due December 1, 1961	770,514,000
Seventh Victory Loan of November 1, 1944, due February 1, 1962	53,473,000
	<u>\$ 1,123,987,000</u>

All of the \$1,935,000,000 of Treasury Bills fell due within 180 days of the close of the fiscal year.

Net Debt

108. With the Liabilities amounting to \$21,602,837,000 (paragraph 100) and the Assets to \$9,165,722,000 (paragraph 89), the Net Debt at March 31, 1961 was \$12,437,115,000. The following is an analysis of the Net Debt Account for the year under review:

Balance, April 1, 1960	\$ 12,089,194,000
Add—Deficit for the fiscal year 1960-61:	
Expenditure	\$ 5,958,061,000
Revenue	5,617,640,000
	<u>340,421,000</u>
	12,429,615,000
Add—Write-off of balance of 1957-58 advances to Canadian National Railways	7,500,000
Balance, March 31, 1961	<u>\$ 12,437,115,000</u>

The special charge of \$7,500,000 to the Net Debt Account during the year under review, as shown above, clears the balance that had remained of advances made under the Canadian National Railways Financing and Guarantee Act, 1957, when the company's 1957 deficit of \$29,600,000 was recognized to the extent of only \$22,100,000. The reason was that, for the purposes of the settlement then made, the Government had disallowed a supplementary depreciation charge of \$7,500,000 that had been recorded in the company's accounts in recognition of the obsolescence that was occurring as a result of the prospective early retirement of steam locomotives and their replacement by diesel power. The write-off of the balance was provided for by Vote 565, 1960-61.

Comments on Asset and Liability Items

109. As indicated in paragraph 87, the Statement of Assets and Liabilities required to be included in the Public Accounts by the Minister of Finance, under section 64 of the Financial Administration Act, is required to be certified by the Auditor General. The Statement as at March 31, 1961 has been certified, subject to the comments in the following paragraphs.

110. *Loss on transactions of the Agricultural Products Board.* Included among the current assets, in the item "departmental working capital advances and revolving funds", is a balance of \$4,861,000 representing the net loss sustained in the purchase of agricultural products by this Board during the year under review. Under the authority of the Agricultural Products Board Act, c.4, R.S., the Governor in Council, on May 5, 1960, authorized the Board to purchase whole milk powder as a means of reducing butter production, and the Board thereupon purchased \$7,257,000 worth of the product. This was transferred to the Department of External Affairs for purposes of a donation to an international relief agency. The Department assumed \$2,343,000 of the cost, leaving \$4,914,000 to be borne by the Board. This was offset to the extent of \$53,000 by a net credit resulting from other transactions, leaving the net loss of \$4,861,000 already mentioned.

In the Audit Office view, a parliamentary appropriation should have been sought to authorize the recording of this loss as a charge to Expenditure during the year.

111. *Advances to the Exchange Fund Account.* In paragraph 91 reference is made to the unrecorded deficiency of \$154,042,000 between the advances to the Exchange Fund Account, included in full as an asset in the Statement, and the market value of investments from advances at the year-end. This deficiency represented:

(a) Net loss on dealings in gold and foreign currencies and securities and on revaluations of gold and foreign currencies since establishment of the Exchange Fund Account in 1935	\$ 133,283,000
(b) Exchange loss arising from valuation of United States dollar and gold holdings at the exchange rate of \$0.98 29/32 Can. = \$1 U.S. at March 31, 1961	20,759,000
	<hr/>
	\$ 154,042,000
	<hr/>

In last year's report reference was made to the \$136 million portion of the deficiency as at March 31, 1960 that had accumulated as a result of dealings in gold and foreign currencies and securities and on revaluations of gold and foreign currencies to that date, and which thus represented a cost of exchange management over the period since the establishment of the Account. The opinion was expressed that the amount should be written off in the accounts of Canada, with parliamentary authority. This matter was considered by the Public Accounts Committee in the course of its 1961 meetings and in its Fifth Report, 1961 (paragraph 78), the Committee recommended:

"that the Minister of Finance be requested to submit to the Committee at the next Session a report dealing with the desirability of writing off the amount in the accounts, with appropriate parliamentary authority, for example against the reserve for losses on realization of assets. The importance of the problem is such that your Committee believes that at the next Session of Parliament it should give special attention to the problem, including the question of transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and re-evaluation of holdings."

112. *Land acquired for development of Cornwall Navigation System.* Included among the balances listed in Schedule "G" supporting the asset item "other loans and investments" in the Statement of Assets and Liabilities is \$1,710,566 for "Land for development of the Cornwall Navigation System". This balance represented the cumulative total of expenditures for the purchase of land in the township of Cornwall, commenced by the Department of Transport in 1955-56 when there was a possibility that the land might be required for the construction of a canal in the township in the event of a decision to complete the St. Lawrence Seaway entirely within Canada. Additional expenditures were incurred during the fiscal years 1956-57 to 1959-60 inclusive, until they totalled in all the \$1,710,566 now standing in the account. The land thus acquired was transferred to The St. Lawrence Seaway Authority on April 1, 1959, with the approval of the Governor in Council, and its value is included among the assets in the balance sheet of the Authority as at December 31, 1960.

Since the expenditures incurred for the canals and other properties that were also transferred to the Authority were written off as Expenditure and are not included as assets in the Statement of Assets and Liabilities, it is the Audit Office view that the balance in the asset account referred to above should now be written off with due parliamentary authority.

113. *Public Service Superannuation Account.* In last year's report mention was made of the fact that the balance of the Public Service Superannuation Account, forming part of the "annuity, insurance and pension accounts" item in the Statement of Assets and Liabilities as at March 31, 1960, included \$139 million that had resulted from a bookkeeping entry made in a previous year, and which had set up an offsetting 'asset' item called "unamortized portion of actuarial deficiency—Public Service Superannuation Account".

In the summary given in paragraph 103 of this report of the transactions in the Public Service Superannuation Account during the year under review, a credit of

\$137,661,000 is shown as having been made to the Account to adjust the balance to the estimated actuarial liability as at December 31, 1957. This bookkeeping credit, added to the \$139 million similarly recorded in the Account previously, has had the effect that the balance of \$1,469 million includes \$276,661,000 which is offset by another item on the Statement. In other words, to this extent the balance did not result from government contributions provided through charges to Expenditure under the authority of section 32 of the Public Service Superannuation Act or appropriations (see also paragraph 59).

In the Audit Office view, as was mentioned in last year's report—as well as in earlier reports—the Account should have been credited (in addition to amounts contributed by participants) only with amounts provided for by section 32 of the Public Service Superannuation Act or by appropriations, the actuarial deficiency at the year-end being disclosed simply by means of a footnote to the Statement.

114. *Canadian Forces Superannuation Account.* In last year's report it was noted that the balance shown in the Statement of Assets and Liabilities as at March 31, 1960 included \$326,300,000 that had resulted from a bookkeeping credit made in the preceding year, with a corresponding charge being made to the offsetting 'asset' account entitled "unamortized portion of actuarial deficiency—Canadian Forces Superannuation Account".

As in the case of the Public Service Superannuation Account, and as mentioned in last year's report, it is the Audit Office view that amounts (additional to contributions by members of the Forces) should be credited to the Account only as provided for by section 24 of the Canadian Forces Superannuation Act or by appropriations (see also paragraph 59).

115. *R.C.M.P. Benefit Trust Fund.* The balance at the credit of this Fund, included in the liability item "deposit and trust accounts", was \$284,162 at March 31, 1961. The Fund was operated for many years under legislation which preceded the enactment of the Royal Canadian Mounted Police Act, c.54, 1959, and is now operated under that Act, section 23 of which provides that all moneys accruing to members of the Force through the medium of fines, proceeds of forfeitures and seizures, fees, costs, etc., and all gifts and bequests to the Force, if converted into money, shall be paid to the Benefit Trust Fund. The section further provides that the Fund shall be used:

- "(a) for the benefit of members and former members and their dependents, as the Governor in Council may prescribe;
- (b) for the making of loans to members of the force; and
- (c) as a reward, grant or compensation to any person who assists the force in the performance of its duties in any case where the Minister is of opinion that such person is deserving of recognition for the service rendered."

Originally the Fund was used principally as a means whereby the Force could look after cases of distress among its members and their dependents. For many years, however, it has been used mainly for the distribution of an annual amount to each member of the Force. Thus, \$194,355 of the total payments of \$195,441 that were made from

the Fund during the year ended March 31, 1961 was distributed equally among the members in the amount of \$35 each. Although the amount is small in relation to salary payments, reference is made to the matter because it appears doubtful that the legislation contemplates that the Fund be used to supplement the pay of members of the Force in this way.

We have been informed that it is the intention to utilize the Fund in future for the purpose of making interest-free loans and grants for the benefit of the members.

116. *Unemployment Insurance Fund.* It was mentioned in last year's report that the Unemployment Insurance Commission is not required by statute to prepare annual financial statements subject to audit. In its Fifth Report, 1961 (paragraph 82) the Public Accounts Committee took note of this and recommended

"that the preparation of such statements, along the lines of those published at page P-19 of the Public Accounts for 1959-60, be made a statutory responsibility of the Commission, and that they be required to be reported upon by the Auditor General".

The financial statements of the Commission for the year ended March 31, 1961, comprising a balance sheet and a statement of revenue and expenditure, are given in the Public Accounts (Volume II, page 17-15). The balance sheet thus published shows a balance of \$184,685,000 at the credit of the Fund as at March 31, 1961, after absorbing a \$181,207,000 excess of expenditure over revenue for the year. Assets of the Fund included investments in Government of Canada and Canadian National Railways bonds, carried in the accounts at an amortized cost of \$245,166,000. The market value of these securities at the year-end was, however, only \$205,751,000, representing a potential loss to the Fund of \$39,415,000. At the year-end, bonds with an amortized value of \$82,478,000 were pledged as security for loans of \$67 million from the Department of Finance.

In his budget speech on June 20, 1961 the Minister of Finance stated that "the entire portfolio of the Unemployment Insurance Fund will in due course be taken over by the Treasury at book values, and in exchange the fund will acquire interest-bearing but non-marketable bonds which may be redeemed by the government as required on thirty days' notice".

The following is a summary of the expenditure and revenue of the Fund for the year ended March 31, 1961 in comparison with the corresponding amounts for the two previous fiscal years:

	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
Expenditure:			
Benefit payments	\$ 478,631,000	\$ 415,234,000	\$ 513,906,000
Interest on advances from the Minister of Finance		1,517,000	403,000
	<u>478,631,000</u>	<u>416,751,000</u>	<u>514,309,000</u>

	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
Revenue:			
Contributions from employers and employees ..	185,487,000	228,616,000	275,273,000
Contributions by Government of Canada	37,097,000	45,723,000	55,055,000
Other receipts	21,773,000	16,907,000	10,043,000
Less: Loss on sale of securities	10,115,000	8,414,000	7,269,000
	<u>11,658,000</u>	<u>8,493,000</u>	<u>2,774,000</u>
	<u>234,242,000</u>	<u>282,832,000</u>	<u>333,102,000</u>
Excess of expenditure over revenue, representing decrease in balance at credit of the Fund	\$ 244,389,000	\$ 133,919,000	\$ 181,207,000

In last year's report an outline was given of the broadened coverage which had been effected over the years and the resultant decrease in emphasis on insurance principles recognized when the Unemployment Insurance Fund was first established. Failure to make provision for increased contributions commensurate with the additional cost of seasonal benefits was also noted as contributing to the decline in the Fund's balance. During the year under review, no changes were made in the Act or Regulations to alter the conditions outlined in last year's report.

Aware of an apparent increase in the number of improper claims and abuses to which the Fund was being subjected, the Commission increased its investigation-enforcement staff during the year by over 50%, to a total of 122, with considerable effect. Penalties imposed on claimants for false or misleading statements numbered 30,044 compared with 16,851 in the preceding year.

The Public Accounts Committee, in its Fifth Report, 1961 (paragraph 81) recommended "that the Auditor General give consideration to the advisability of increasing the scope of his examination of unemployment insurance fund transactions in the field". A moderate increase has taken place, and is continuing, in the number of field examinations made by the Audit Office of regional and local offices of the Unemployment Insurance Commission.

Crown Corporations

117. Section 85 of the Financial Administration Act requires that each Crown corporation prepare, in respect of each financial year, a balance sheet, a statement of income and expense and a statement of surplus "containing such information as, in the case of a company incorporated under the Companies Act, is required to be laid before the company by the directors at an annual meeting".

118. Section 87 of the Financial Administration Act requires the auditor of an agency or a proprietary Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the relative corporation, and the report is required to state whether, in the auditor's opinion:

"(a) proper books of account have been kept by the corporation;

- (b) the financial statements of the corporation
 - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
 - (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and
 - (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and
- (c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation."

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

119. Section 87 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and section 85 directs that such annual report be laid before Parliament by the appropriate Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume III of the Public Accounts.

120. The Auditor General is the auditor of the following Crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1961:

<u>Corporation</u>	<u>Reporting Minister</u>
<i>Agency corporations:</i>	
Atomic Energy of Canada Limited	Veterans Affairs
Canadian Arsenal Limited	Defence Production
Canadian Commercial Corporation	Defence Production
Canadian Patents and Development Limited	Veterans Affairs
Crown Assets Disposal Corporation	Defence Production
Defence Construction (1951) Limited	Defence Production
The National Battlefields Commission	Northern Affairs and National Resources
National Capital Commission	Public Works
National Harbours Board	Transport
Northern Canada Power Commission	Northern Affairs and National Resources
Park Steamship Company Limited	Transport

<u>Corporation</u>	<u>Reporting Minister</u>
<i>Proprietary corporations:</i>	
Canadian Broadcasting Corporation	National Revenue
Canadian National (West Indies) Steamships Limited ...	Transport
Canadian Overseas Telecommunication Corporation	Transport
Cornwall International Bridge Company Limited	Transport
Eldorado Aviation Limited	Trade and Commerce
Eldorado Mining and Refining Limited	Trade and Commerce
Export Credits Insurance Corporation	Trade and Commerce
Farm Credit Corporation	Agriculture
Northern Transportation Company Limited	Trade and Commerce
Polymer Corporation Limited	Defence Production
The St. Lawrence Seaway Authority	Transport
Northern Ontario Pipe Line Crown Corporation	Trade and Commerce

121. The accounts of the following Crown corporations and other public instrumentalities were not examined by the Auditor General during the year under review:

	<u>Reporting Minister</u>
Bank of Canada	Finance
Canadian National Railways	Transport
The Canadian National Railways Securities Trust	Transport
The Canadian Wheat Board	Agriculture
Central Mortgage and Housing Corporation	Public Works
Industrial Development Bank	Finance
Trans-Canada Air Lines	Transport

122. The paragraphs that follow treat, in turn, with the various Crown corporations audited by the Auditor General. An introductory comment describes briefly the origin and nature of the activity and is followed by: comments regarding the Crown's equity in the corporation, noting any change during the year; a summary of the operations for the financial year in comparison with the preceding year; and any other matter which it is felt might be of interest to the House of Commons.

Agency Corporations

123. Agency corporations are responsible, in general, for the management of procurement, construction, service or disposal activities on behalf of the Crown.

124. *Atomic Energy of Canada Limited.* This company was incorporated in 1952 under the Companies Act, 1934, pursuant to authority contained in the Atomic Energy Control Act, c.11, R.S., for the purpose of carrying out research and development in nuclear power technology and allied fields and to promote the uses of atomic energy.

The head office of the company is located in Ottawa and its operations are conducted at Chalk River and Deep River, Ontario, where nuclear reactors and laboratories are maintained. A commercial products division, located in Ottawa, is responsible for

the sale of beam therapy units, radioactive isotopes and other allied products. At the close of the year the company had two nuclear power stations under construction, one a demonstration project at Rolphton, Ontario, and the other a large generating station at Douglas Point, Ontario. Plans for the engineering and development of the nuclear power plants under construction are being prepared at an office located in Toronto, in co-operation with the Hydro-Electric Power Commission of Ontario. Plans are under way for the establishment of additional research and development facilities in Manitoba.

The Crown's equity in the undertaking totalled \$62,255,000 at March 31, 1961, which compared with the position at the end of the previous year as follows:

	As at March 31	
	1961	1960
Loans for housing	\$ 5,730,000	\$ 5,374,000
Loan for construction of generating station	1,205,000	
Capital stock	54,000,000	54,000,000
Retained earnings	1,320,000	1,695,000
	<u>\$62,255,000</u>	<u>\$61,069,000</u>

Although the company's research program is principally financed by parliamentary appropriations, these are supplemented to a certain extent by transfers from earnings retained from commercial operations, etc., as shown in the following summary of income and expense for the past two years:

	Year ended March 31	
	1961	1960
<u>Research Program—Operating</u>		
Expense		
Research and development	\$ 8,477,000	\$ 7,955,000
Operation of research facilities	1,943,000	1,690,000
Engineering services	4,852,000	4,352,000
Nuclear power plant	4,674,000	1,668,000
Administration	2,893,000	2,791,000
Other expenses	1,583,000	1,591,000
	<u>24,422,000</u>	<u>20,047,000</u>
Income: Gross income from housing, hospital, transportation, etc...	1,324,000	1,436,000
Excess of expense over income	<u>\$23,098,000</u>	<u>\$18,611,000</u>
Provided for by:		
Parliamentary appropriation	\$23,110,000	\$19,583,000
Less: Unexpended balance refundable to the Government of Canada	12,000	972,000
	<u>\$23,098,000</u>	<u>\$18,611,000</u>

	Year ended March 31	
	1961	1960
<u>Research Program—Capital</u>		
Expense: Construction of building and acquisition of equipment....	\$16,120,000	\$11,527,000
Provided for by:		
Parliamentary appropriation	\$15,081,000	\$10,797,000
Retained earnings	1,039,000	730,000
	<u>\$16,120,000</u>	<u>\$11,527,000</u>
<u>Commercial Operations</u>		
Income		
Sales	\$ 3,402,000	\$ 2,929,000
Rentals, etc.	291,000	225,000
	<u>3,693,000</u>	<u>3,154,000</u>
Expense		
Cost of sales, etc.	2,163,000	1,538,000
Research and development	274,000	218,000
Selling	669,000	558,000
Administrative	348,000	315,000
	<u>3,454,000</u>	<u>2,629,000</u>
Excess of income over expense, credited to retained earnings	<u>\$ 239,000</u>	<u>\$ 525,000</u>

The sale of material irradiated in the NRU reactor, and the related costs, are subject to a classified international agreement and are therefore not reflected in the above summary.

Research operating expense increased by \$4,375,000 during the year ended March 31, 1961 over the preceding year, largely accounted for by the following increases: salaries and welfare benefits, \$1,092,000; professional and special services, \$737,000; and contract expenditures, \$2,332,000. The increase in professional and special services is largely attributable to the payment of \$522,000 for engineering services in connection with the power reactor at Douglas Point. Contract expenditures increased principally by reason of additional contracts with industry for development and engineering studies.

The management approved inventory write-downs totalling \$282,000 during the year in stocks of radium, actinium, beam therapy units and other materials, having regard for prevailing market conditions and the unfavourable rate of turnover of the items.

The undepreciated cost of plant and property as shown on the company's balance sheet at March 31, 1961 was \$34,368,000. At that time, recovery of the capital cost through depreciation of the company's NRU reactor amounting to approximately \$25 million was dependent on terms of the renewal of a classified agreement then under negotiation. It is now known that the terms of the agreement will not provide for any further recovery of depreciation costs and therefore the undepreciated value of the reactor will have to be written off.

125. *Canadian Arsenal Limited.* Canadian Arsenal Limited was incorporated in 1945 under the Companies Act, 1934, pursuant to authority contained in the Department of Reconstruction Act, c.18, 1944. Among the objects of the company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and equipment. In fulfilment of these responsibilities, the company is also charged with the maintenance of physical facilities and manufacturing skills in such a manner as to enable it to extend operations on short notice.

The company is the custodian of nine government-owned plants constructed prior to or during World War II, with eight maintained partially in a stand-by condition and one now idle. The total cost of all plants was in excess of \$100 million.

At March 31, 1961 the company's operations were financed by advances of \$11,162,000 from the Department of National Defence in respect of orders placed, advances of \$6,000,000 from the Defence Production Revolving Fund (reduced from \$7,500,000 at March 31, 1960) and advances of \$7,500,000 from the Minister of Finance for working capital purposes.

Funds are provided by parliamentary appropriations to meet capital requirements for equipment, construction and improvements. The capital budget for 1960-61 totalled \$282,000, with actual capital expenditures amounting to \$237,000. The unexpended balance of \$45,000 drawn down in excess of actual expenditures was refunded to the Receiver General of Canada in May 1961.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1961	1960
Income		
Sales	\$21,275,000	\$25,049,000
Miscellaneous	518,000	432,000
	<u>21,793,000</u>	<u>25,481,000</u>
Expense		
Cost of sales—including indirect labour and other overhead expenses absorbed	18,395,000	20,966,000
Indirect labour and other overhead expenses not absorbed in cost of sales	5,438,000	5,754,000
Administrative expenses	879,000	821,000
	<u>24,712,000</u>	<u>27,541,000</u>
Excess of expense over income	<u>\$ 2,919,000</u>	<u>\$ 2,060,000</u>

There has been a steady decline in sales over the past seven years, from \$81 million for the year ended March 31, 1955 to \$21 million for the year ended March 31, 1961. This decline in activity and in sales, coupled with the company's obligation to maintain the government-owned plants in partial stand-by condition, has necessitated funds being annually appropriated by Parliament towards the cost of administration and operation of the company over the past several years. During the year under review, a total of

\$2,849,000 was appropriated for this purpose, \$1,349,000 by Vote 73 of the Main Estimates and \$1,500,000 by Vote 509 of Further Supplementary Estimates (2).

Overhead expenses for the year totalled \$11,803,000, of which \$6,365,000 was included in cost of sales. It has been the company's practice to calculate this portion of overhead expenses on direct labour costs at rates which theoretically would have absorbed all overhead expenses if all plants had been operating on a normal one-shift basis. The extent to which these rates were not sufficient to recover overhead costs, namely \$5,438,000, shown in the above table as indirect labour and other overhead expenses not absorbed in cost of sales, can be largely attributed to idle capacity of production facilities.

The net working capital of the company decreased by \$1,589,000, from \$14,138,000 at March 31, 1960 to \$12,549,000 at March 31, 1961. This decrease was occasioned largely by the refund of \$1,500,000 to the Defence Production Revolving Fund already referred to. During the year inventories of raw materials, work-in-process and finished goods were reduced by \$4,579,000, or 21%, from their level at March 31, 1960.

It was noted during the course of the audit that funds considerably in excess of current operating requirements were deposited during the year in a non-interest-bearing bank account, and the recommendation has been made to the board of directors that such surplus funds be invested in short-term securities to the extent that they are not used to reduce further the advances from the Defence Production Revolving Fund.

It was also noted that a cheque for \$46,444 in favour of the Receiver General of Canada, received in February 1961, remained undeposited until November. We were informed that the reason for this was that the amount of the remittance could not be reconciled with the balance in the company's records of a deposit with a supplier, and the officer involved held the view that to deposit the cheque would be an acknowledgment that the remittance was accepted in full settlement of the account. In our view, the cheque should have been deposited promptly upon its receipt and the amount credited to a suspense account pending reconciliation of the accounts.

Another point was that under agreements which the company has with the Department of Defence Production for the storage of materials, the company paid \$10,295 to the Department covering reimbursement for a shortage of materials which developed between August 1954 and October 1959, when a physical examination revealed this discrepancy which could not be accounted for.

In November 1960 a firm of management consultants was engaged by the Department of Defence Production, with Treasury Board authority, to undertake a study of the organization of Canadian Arsenal Limited, the efficiency and cost of its manufacturing operations and various other aspects of its activities. We understand that the final report of the management consultants has not yet been submitted.

126. *Canadian Commercial Corporation.* This corporation was established in 1946 under the Canadian Commercial Corporation Act, now c.35, R.S., its basic function being the provision of procurement services in Canada for the governments of other countries and for international organizations. The corporation's main customer is the

United States Government, but a considerable volume of purchasing of Canadian-made goods is carried out on behalf of the Department of Trade and Commerce in connection with Colombo Plan projects. The corporation's head office is in Ottawa, with a branch office in Washington.

The Crown's equity in the corporation at the year-end consisted of \$7,000,000 of working capital advances (an increase of \$1,000,000 during the year) together with a surplus account balance of \$811,000. At the year-end the corporation's agency account showed \$2,045,000 for obligations to principals, representing advances from various governments and international organizations.

The following is a comparative summary of the income and expense of the corporation for the past two years:

	Year ended March 31	
	1961	1960
Income		
Purchase surcharges	\$ 159,000	\$ 136,000
Interest earned	55,000	74,000
Exchange gain	50,000	17,000
Other income	5,000	
	<hr/> 269,000	<hr/> 227,000
Expense		
Salaries and living allowances	283,000	235,000
Other expense	75,000	59,000
	<hr/> 358,000	<hr/> 294,000
Net loss	<hr/> \$ 89,000	<hr/> \$ 67,000

The audit report to the Minister of Defence Production for the year ended March 31, 1960 referred to certain advances having been made to a supplier, in excess of those normally provided, to enable a project to be completed, and mentioned that repayment of the advances would be dependent on settlement of a claim for contract adjustment made by the corporation to its customer. During the year under review, an over-all settlement was effected with the customer and an increased contract value was negotiated with the supplier sufficient to cover the advances. As a result, no loss has been suffered by the corporation except for interest on advances to the supplier, amounting to \$137,500, waiver of which was approved by the board of directors.

As already indicated, a substantial portion of the corporation's purchasing is carried out on behalf of the United States Government. Under a reciprocal agreement with the United States, no surcharges are levied on this business. Income from surcharges on other business, although slightly higher in the year ended March 31, 1961 than in the preceding year, has declined in recent years to the point where successive annual losses have been experienced which have had to be absorbed by the accumulated surplus of prior years. As it is anticipated that this situation will continue, the board of directors has recommended that an arrangement be sought whereby annual losses would be made good from funds appropriated by Parliament.

127. *Canadian Patents and Development Limited*. Section 17 of the Research Council Act, c.239, R.S., provides for the incorporation of one or more companies by the National Research Council for the purpose of exercising certain of the powers conferred upon the Council. Pursuant to this authority, Canadian Patents and Development Limited was incorporated in 1947 under the Companies Act, 1934, for the purpose of developing and making available to industry, through licensing arrangements, the inventions and new processes developed by the Council. The services of the company, whose head office is in Ottawa, are also available to government departments, publicly supported institutions and universities. The staff of four at March 31, 1961 consisted of employees of the Council, which is reimbursed for their services.

The Crown's equity in the company at March 31, 1961 amounted to \$311,000, consisting of \$296,000 of capital stock and surplus of \$15,000.

A comparative summary of the company's income and expense for the past two years follows:

	Year ended March 31	
	1961	1960
Income		
Royalties, licensing fees, etc.	\$ 191,000	\$ 180,000
Less: Costs of licensing rights and related technical assistance, etc.	29,000	118,000
	162,000	62,000
Other income	11,000	10,000
	173,000	72,000
Expense		
Salaries	26,000	12,000
Patent attorneys' fees and other patent expenses	29,000	27,000
Awards to inventors	13,000	5,000
Other expenses	13,000	6,000
	81,000	50,000
Net profit	\$ 92,000	\$ 22,000

The decrease of \$89,000 during the year under review in the costs of licensing rights and related technical assistance, etc., was largely due to the termination of certain contracts for aircraft and engines under which the proceeds of licences were required to be remitted to the United Kingdom patent holders. The corresponding reduction in income is not reflected in the above summary because the increased income from other sources more than compensated for the reduction.

128. *Crown Assets Disposal Corporation*. In 1944 the Surplus Crown Assets Act established the War Assets Corporation, and a 1949 amendment to the Act provided that thereafter the corporation was to be known as Crown Assets Disposal Corporation. With certain specified exceptions, the corporation is responsible for the disposal of the

surplus assets of all government departments and most of the Crown corporations and other agencies. In addition, agreements have been entered into for the disposal of surplus United Kingdom and United States property located in Canada. The head office of the corporation is in Ottawa and sales offices are maintained in a number of other Canadian cities.

During the past two years the corporation was authorized to retain 4% of the net proceeds of sales and other moneys received from sales of land and buildings, and 10% of the net proceeds of all other sales and of other income to meet its administrative costs. The following is a comparative summary of the income and expense for the past two years:

	Year ended March 31	
	1961	1960
Income		
Percentage of net proceeds of sales made and of other income earned, etc.	\$ 810,000	\$ 738,000
Expense		
Salaries	451,000	435,000
Employees' welfare benefits	42,000	42,000
Rent	40,000	43,000
Telephones, telegrams and postage	29,000	28,000
Printing, stationery and office supplies	27,000	24,000
Travel	15,000	14,000
Other expenses	12,000	19,000
	616,000	605,000
Excess of income over expense	\$ 194,000	\$ 133,000

A general salary increase during the year more than offset the savings effected by a staff reduction of eight persons.

In 1959 the corporation was directed, pursuant to section 81 of the Financial Administration Act, to pay to the Receiver General from time to time, but at intervals of not longer than six months, all of the surplus in its general account in excess of \$100,000. Consequently, the \$194,000 excess of income over expense for the year under review has been paid to the Receiver General, leaving the surplus balance at the level of \$100,000.

The equity of the Government of Canada in the corporation's agency account was \$4,929,000 at March 31, 1961 compared with \$5,657,000 at the end of the preceding year. To the extent of \$4,692,000 the former amount was represented by receivables under long-term interest-bearing sales agreements.

A comparative summary of the transactions in the agency account during the past two years follows:

	Year ended March 31	
	1961	1960
Proceeds from sales, etc.:		
Government of Canada	\$ 7,908,000	\$ 7,393,000
Other principals	1,471,000	1,012,000
Interest earned	198,000	233,000
	<hr/>	<hr/>
	9,577,000	8,638,000
Less: Direct costs relating to sales	55,000	90,000
	<hr/>	<hr/>
	9,522,000	8,548,000
Deduct:		
Percentage of net proceeds from sales, etc., retained by the corporation	810,000	738,000
Remittances to:		
Receiver General of Canada	8,118,000	7,500,000
Others	1,368,000	863,000
	<hr/>	<hr/>
	9,486,000	8,363,000
	<hr/>	<hr/>
	10,296,000	9,101,000
	<hr/>	<hr/>
Reduction in equity of the Government of Canada and others	\$ 774,000	\$ 553,000
	<hr/>	<hr/>

In the report made to the Minister of Defence Production under section 87 of the Financial Administration Act on June 16, 1961, covering the examination of the accounts of the corporation for the fiscal year ended March 31, 1961, it was pointed out that during the year a firm of management consultants, retained by the management, had completed an examination of the operations of the corporation. As a result of this examination, a number of recommendations designed to effect operating economies were submitted to and accepted by the management. These were put into effect progressively during the year and, as is indicated above, while the volume of business handled showed an increase over the preceding year, expenses remained approximately the same.

129. *Defence Construction (1951) Limited.* This company was incorporated in 1951 under the Companies Act, 1934, pursuant to the authority contained in section 7 of the Defence Production Act, now c. 62, R.S. It is responsible for awarding and supervising contracts for defence construction. The head office is in Ottawa and there are branches at other cities in Canada and an overseas office in Paris.

Since the company makes no payments in connection with the construction contracts it awards and supervises, no provision is required for working capital other than for its net expenditure which is financed by means of annual parliamentary appropriations.

Payments on the contracts supervised by the company are made principally by the Comptroller of the Treasury out of funds provided for the purpose by annual appropriations for the Department of National Defence, and amounted to \$89 million in 1960-61 compared with \$103 million in the preceding year.

The following is a summary of the financial results for the year under review compared with those of the preceding year:

	Year ended March 31	
	1961	1960
Expense		
Salaries and living allowances	\$ 2,479,000	\$ 2,508,000
Travel and removal	244,000	258,000
Employees' welfare benefits	176,000	165,000
Other expenses	265,000	276,000
	<u>3,164,000</u>	<u>3,207,000</u>
Income		
Reimbursement for engineering and administrative services	133,000	154,000
Other income	1,000	2,000
	<u>134,000</u>	<u>156,000</u>
Net expenditure	<u>\$ 3,030,000</u>	<u>\$ 3,051,000</u>

130. *The National Battlefields Commission.* The National Battlefields Commission was constituted in 1908 by the National Battlefields at Quebec Act, c. 57, 1908, with the object of acquiring and preserving the historic battlefields at Quebec. The Commission comprises nine members, seven of whom are appointed by Governor in Council and one by each of the provinces of Ontario and Quebec.

Considerable portions of the lands which were already vested in the Crown for military and other public purposes were transferred to the Commission at the time of its constitution. Other lands were subsequently acquired from time to time with the approval of Parliament as required by the Act. Prior to 1958, the cost of buildings, driveways, landscaping, equipment, etc., was met from grants by the Government of Canada under the Act which created the Commission. Since 1958 the Commission has been financed by means of annual parliamentary appropriations. At March 31, 1961 the Crown's equity in the Commission totalled \$1,445,000 represented by capital assets of \$1,426,000 and working capital of \$19,000.

At the year-end the Commission had cash and Government of Canada bonds to the total of \$27,000 in its custody representing the balance of funds contributed, in the years immediately following the constitution of the Commission, by provincial governments, municipalities and others. These funds are held exclusively for the acquisition of land and furthermore may not be used for this purpose without prior approval of Parliament. Save for the increase due to interest earnings, the balance in the account has remained undisturbed for thirty years.

A summary of the expenses for the year compared with the previous year follows:

	Year ended March 31	
	1961	1960
Administrative salaries	\$ 12,000	\$ 11,000
Operating wages	123,000	126,000
Provision for professional services	5,000	2,000
Operating supplies and nursery stock	9,000	9,000
Heat, light and power	11,000	10,000
Other expenses	11,000	10,000
	<hr/>	<hr/>
Capital outlays	171,000	168,000
	22,000	3,000
	<hr/>	<hr/>
	\$ 193,000	\$ 171,000
	<hr/>	<hr/>

The capital outlays during the year were principally for the purpose of providing a parking area for tourists.

In the year under review, the expenses of the Commission were financed as follows:

Parliamentary appropriation (Vote 275)	\$ 178,099
Special reserve fund	13,500
Interest from investments	519
Surplus	1,163
	<hr/>
	\$ 193,281
	<hr/>

The amount of the Special Reserve Fund at March 31, 1960, namely \$13,500, represented the accumulation of annual provisions of \$1,500 over the years to meet any losses arising from fire, accident or any other eventuality. In view of the fact that financial requirements were to be provided by annual appropriations in future, the Commission was advised by the Treasury Board that no further amounts should be allocated to this reserve and was directed to use the amount accumulated in this fund to supplement the moneys provided by Parliament during the year under review.

The City of Quebec levies a snow removal tax based on the assessed value of land. Commencing in 1955, the City has billed the Commission for this snow removal tax annually and at March 31, 1961 these charges had totalled over \$400,000. Since the Commission regards the battlefield as a park and therefore not taxable in this way, it has lodged appeals against these assessments. In the meantime, no provision for these levies has been recorded in the accounts of the Commission.

131. *National Capital Commission.* This Commission was established by the National Capital Act, c.37, 1958, to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission, 1899.

The objects and purposes of the Commission under the Act are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of

Canada may be in accordance with its national significance". Subject to the control exercised by the Governor in Council, the Commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; the right to undertake joint projects with municipalities or make grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites. The Commission consists of 20 members appointed by the Governor in Council from across Canada.

The proprietary interest of the Government of Canada in the Commission as at March 31, 1961 totalled \$61,431,000, represented by: unexpended balance of loans, \$684,000; inventories of tools, equipment and supplies, \$205,000; payments for land purchases under negotiation, \$1,167,000; and capital assets, \$59,375,000.

The Commission's activities are financed by annual parliamentary appropriations, drawings from the National Capital Fund and loans from the Government of Canada, apart from incidental revenues from rentals, etc. A summary of the expenditure and other transactions for the past two years is as follows:

	Year ended March 31	
	1961	1960
Administration of the Commission, and operation and maintenance of parks, parkways and grounds adjoining Government buildings at Ottawa and Hull	\$ 2,117,000	\$ 1,897,000
Provided for by:		
Parliamentary appropriations	\$ 1,911,000	\$ 1,737,000
Revenue	206,000	160,000
	<u>\$ 2,117,000</u>	<u>\$ 1,897,000</u>
<u>National Capital Fund</u>		
Balance of Fund in hands of Commission at beginning of year	\$ 521,000	\$ 345,000
Add:		
Amounts drawn from Fund provided by parliamentary appropriations	3,000,000	2,500,000
Proceeds from sales of land	193,000	77,000
	<u>3,193,000</u>	<u>2,577,000</u>
	<u>3,714,000</u>	<u>2,922,000</u>
Deduct:		
Expenditures—		
Capital outlays for parks, parkways, removal of railway tracks, etc.	2,259,000	1,806,000
Maintenance of land and rehabilitation works	92,000	56,000
Contributions to the City of Ottawa and other municipalities towards the cost of constructing roads, bridges and sewers	1,362,000	539,000
	<u>3,713,000</u>	<u>2,401,000</u>
Balance of Fund in hands of Commission at end of year	<u>\$ 1,000</u>	<u>\$ 521,000</u>

	Year ended March 31	
	1961	1960
<u>Acquisition of property in the National Capital Region through loans provided by the Government of Canada</u>		
Unexpended balance of loans at beginning of year	\$ 450,000	\$ 641,000
Add:		
Government of Canada loans (net)	7,489,000	10,642,000
Proceeds of sale of property		68,000
	<u>7,489,000</u>	<u>10,710,000</u>
	7,939,000	11,351,000
Deduct:		
Expenditures for acquisition of property	7,255,000	10,901,000
	<u>7,255,000</u>	<u>10,901,000</u>
Unexpended balance of loans at end of year	\$ 684,000	\$ 450,000
<u>Interest charges on outstanding Government of Canada loans</u>		
Interest on loans	\$ 1,097,000	\$ 590,000
Provided for by:		
Parliamentary appropriation	940,000	457,000
Net revenue from rentals of property and interest earnings	157,000	133,000
	<u>\$ 1,097,000</u>	<u>\$ 590,000</u>

The Commission's capital budget for the year 1960-61 was approved by Order in Council P.C. 1960-504 of April 13, 1960 and a revised capital budget was approved by Order in Council P.C. 1960-1700 of December 14, 1960. We have drawn attention to the fact that neither of these approved capital budgets appears to have been laid before Parliament as required under section 80 of the Financial Administration Act.

The approved revised budget stipulated that expenditure on any of the items detailed therein should not exceed by more than 10% the amount for each, without further approval, and total expenditure should not exceed \$10,750,000 for land acquisitions and \$2,361,000 for construction projects. During the course of our examinations it was noted that expenditures on five items exceeded these limits as follows:

<u>Construction projects</u>	<u>Budget plus 10%</u>	<u>Expenditure</u>
Leamy Lake Parkway	\$ 11,000	\$ 16,199
Construction of curbs along parkways	33,000	36,709
Park improvements in vicinity of Dow's Lake	27,500	28,921
Landscaping along the Queensway	44,000	64,059
Improvements to farm properties in the Greenbelt	27,500	36,527

In this connection, a further revised capital budget was submitted on March 6, 1961 but was not approved for the reason that it reached the Privy Council Office after the end of the fiscal year. Had this revision been approved, all expenditures except those for Leamy Lake Parkway would have been within the limits of the budget.

In paragraph 62 of this report, reference is made to interest paid by the Commission out of funds provided to it by means of annual parliamentary appropriations.

132. *National Harbours Board.* This Board was established in 1936 under the National Harbours Board Act, now c.187, R.S., and has jurisdiction over the harbours

of Halifax, Saint John, Chicoutimi, Quebec, Three Rivers, Montreal and Vancouver, together with responsibility for the administration, management and control of Churchill harbour and the grain elevators at Prescott and Port Colborne. The head office of the Board is in Ottawa.

The proprietary equity of the Government of Canada at December 31, 1960 totalled \$421,091,000, comprising: value of assets transferred to the Board, \$56,923,000; loans and advances for capital expenditures and retirement of debt, \$279,262,000; interest in arrears on loans and advances, \$59,008,000; and reserve for replacement of capital assets and other reserves, \$93,459,000—less an accumulated deficit of \$67,561,000. During the year under review, additional advances were made to a total of \$12,193,000, compared with \$17,719,000 in the previous year.

The following is a comparative summary of the operations of the Board for its past two financial years:

	Year ended December 31	
	1960	1959
Operating income		
Harbours	\$ 2,946,000	\$ 2,868,000
Wharves and piers	8,822,000	7,220,000
Grain elevator systems	7,104,000	7,064,000
Cold storage systems	1,078,000	1,153,000
Permanent sheds	1,779,000	1,391,000
Railway systems	810,000	829,000
Jacques Cartier Bridge	3,354,000	2,355,000
Miscellaneous services	1,246,000	1,326,000
	<u>27,139,000</u>	<u>24,206,000</u>
Operating and administrative expenses		
Harbours	3,409,000	2,999,000
Wharves and piers	1,081,000	759,000
Grain elevator systems	5,229,000	4,527,000
Cold storage systems	1,104,000	1,092,000
Permanent sheds	1,457,000	1,187,000
Railway systems	1,189,000	1,191,000
Jacques Cartier Bridge	658,000	639,000
Miscellaneous services	1,469,000	1,481,000
Administrative expenses	1,838,000	1,723,000
	<u>17,434,000</u>	<u>15,598,000</u>
Net operating income	9,705,000	8,608,000
Other income		
Income from investments	2,476,000	2,223,000
Miscellaneous	178,000	121,000
	<u>2,654,000</u>	<u>2,344,000</u>
	<u>12,359,000</u>	<u>10,952,000</u>
Special charges		
Provision for interest on loans and advances	8,596,000	7,925,000
Provision for replacement of capital assets	4,139,000	3,403,000
Other special charges	300,000	219,000
	<u>13,035,000</u>	<u>11,547,000</u>
Net loss	<u>\$ 676,000</u>	<u>\$ 595,000</u>

The increase in operating and administrative expenses during the year was mainly due to an increase of \$1,253,000 in expenses recorded at the Montreal harbour. This consisted largely of expenses of a non-recurring nature, including: extensive repairs and alterations to the exterior concrete walls of grain elevator No. 2, \$422,000; replacement of four passenger elevators, \$126,000; major wharf repairs, \$100,000; and repairs to grain elevator No. 3, \$81,000.

The liability item for "contractors' security and other deposits" on the Board's balance sheet as at December 31, 1960 includes rentals amounting to \$115,000 collected over many years for certain areas at Coal Harbour, Vancouver. The ownership of the areas in question has been in dispute between the Board and the Canadian Pacific Railway Company since the Board's inception in 1936—and between the Board's predecessor and the railway company since 1880. It is understood that the C.P.R. is, for its part, holding in escrow the sum of \$197,000. The matters in dispute have been considered by the Department of Justice going as far back as 1894, and were actively considered in 1904 and 1918 but without a final solution. The dispute appears as far from being settled today as it was in 1880.

When the Board took over the administration, management and control of Churchill harbour on January 1, 1937, the books of the harbour recorded a balance of \$4,446,000 as "sundry expenditure—undistributed", and this balance has been included in the capital assets listed on the Board's annual balance sheet ever since. So far as can be determined, no part of the amount represents direct costs incurred in acquiring existing capital assets. It appears to be in the nature of indirect or overhead expenses, and since the balance is not represented by actual assets, we have suggested to the Board that consideration be given to writing it off.

In 1947 authority was sought and obtained from the Governor in Council to cancel accumulated interest arrears due to the Government of Canada in the amount of \$44,790,000. During the period from 1948 to 1960, interest arrears have increased by \$32,468,000 and principal of loans by \$101,249,000. As a result, the total indebtedness to the Government of Canada appearing on the balance sheet of the National Harbours Board at March 31, 1961 was as follows:

Loans and advances for capital expenditure and retirement of debt	\$ 279,262,000
Interest in arrears on loans and advances	59,008,000
	<hr/>
	\$ 338,270,000
	<hr/>

As there appears little prospect of the Board being in a position to meet principal and interest obligations of this magnitude on the basis of the present level of its operations, we are of the opinion that consideration should be given to reconstituting its financial structure on a more realistic basis. Actually, the governmental accounts do not reflect the full amount of the liability appearing on the Board's balance sheet. The asset item "loans to and investments in Crown corporations" as at March 31, 1961 includes only the loans, totalling \$172,770,000, in respect of the revenue-producing harbours of Montreal, Three Rivers and Vancouver, and includes no amount for interest in arrears.

133. *Northern Canada Power Commission.* The Northwest Territories Power Commission was established by Act of Parliament in 1948, which Act, upon amendment in 1956, became the Northern Canada Power Commission Act, c.42, 1956 and changed the name of the Commission to the Northern Canada Power Commission. The Commission, whose head office is in Ottawa, consists of three members appointed by the Governor in Council.

The objects of the Commission are to construct and operate electric power plants and to supply power to mines and other users within the Northwest Territories and the Yukon Territory and, with the approval of the Governor in Council, in any other part of Canada. The Act requires that the rates charged for power must provide sufficient revenue to cover interest and loan repayments, as well as operating and maintenance expenses.

The Commission operates hydro-electric plants at Snare River, N.W.T., and at Mayo River and Whitehorse Rapids, Y.T., and thermal-electric stations at Fort Smith, Fort Simpson, Inuvik, Fort McPherson and Frobisher Bay, N.W.T., and at Field, B.C. The plant at Fort McPherson is operated for the account of the Department of Northern Affairs and National Resources and the one at Frobisher Bay is rented from the Department of Transport.

The Act provides that the Government of Canada may make advances to the Commission for the purpose of capital expenditure and also for investigation of projects. During the year the Commission received \$1,225,000 (net) in the form of advances for capital expenditure, and repaid \$569,000. At March 31, 1961 advances for capital expenditure, including accrued interest, amounted to \$26,684,000 and for investigation of projects, to \$50,000. Other equity of the Government of Canada in the Commission consisted of surplus, \$562,000; reserve for extension, expansion and improvements, \$212,000; and reserve for contingencies, \$1,310,000.

The Commission also acts in the capacity of an agent of the Government of Canada for loans made under the Atlantic Provinces Power Development Act, c.25, 1957-58. As of March 31, 1961, these loans, made to the provincial power commissions of Nova Scotia and New Brunswick, totalled \$14,246,000.

A comparative summary of income and expense for the last two years follows:

	Year ended March 31	
	1961	1960
Income		
Sales of power	\$ 2,559,000	\$ 2,240,000
Sales of steam and water heat	321,000	191,000
Miscellaneous	140,000	76,000
	<hr/> 3,020,000	<hr/> 2,507,000

	Year ended March 31	
	1961	1960
Expense		
Operating expense	1,137,000	834,000
Maintenance	91,000	72,000
Administrative	178,000	156,000
Interest on advances from the Government of Canada	498,000	507,000
Provision for depreciation (equivalent to annual repayment of advances from the Government of Canada)	569,000	548,000
	<hr/> 2,473,000	<hr/> 2,117,000
Net income	<hr/> \$ 547,000	<hr/> \$ 390,000

The increase of \$319,000 in sales of power was due to increased consumer demand which, we were informed, had warranted installation of additional generating capacity at Snare, Fort Smith, Fort Simpson, Frobisher Bay and Inuvik, and reflects a full year's operation for plants which became operational late in the preceding year. The income from steam and water heat increased by \$130,000 due to increased sales of the Inuvik plant which went into operation part way through 1960 but which reflects a full year's operation for 1961. Much of the increase in expenses was due to the increased operational activity during the year.

Our report to the Commission last year stressed the need for substantial improvements in accounting and collection procedures. A number of the recommendations with respect to accounting have been implemented but we have advised the Commission again this year that greater emphasis should be placed on keeping the recording of transactions on a current basis. For example, stores accounting vouchers and salary distribution summaries should be processed at regular intervals. In addition, there should be a routine monthly review of outstanding accounts receivable accompanied by a systematic procedure for sending out collection notices. The management has advised us that steps are being taken to deal with these points.

134. *Park Steamship Company Limited*. This company, incorporated in 1942 under the Companies Act, 1934, for the purpose of supervising the operation of Crown-owned cargo vessels, ceased actual operations when the "Park Fleet" was sold in 1946-47. Its current activities, limited to the settlement of occasional claims for compensation by seamen for injuries sustained during the operating period, are attended to by the Canadian Maritime Commission.

Proprietary Corporations

135. Proprietary corporations are responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.

136. *Canadian Broadcasting Corporation.* This Corporation was established by the Canadian Broadcasting Act, c.24, 1936, later superseded by the Broadcasting Act, c.22, 1958. The Corporation operates the national broadcasting service and administers the international shortwave service. Its head office is located in Ottawa with regional offices in St. John's, Halifax, Montreal, Ottawa, Toronto, Winnipeg and Vancouver.

Funds for the operating requirements of the Corporation, in excess of income from advertising revenue, are derived from parliamentary appropriations. Parliament likewise appropriates funds for the Corporation's capital requirements, including the replacement of existing capital assets.

The Crown's equity in the Corporation stood at \$38,872,000 at March 31, 1961 compared with \$34,232,000 at the end of the previous year. The equity was increased by a \$3,000,000 advance provided by parliamentary appropriation during the year, increasing the Corporation's working capital from \$6,000,000 to \$9,000,000. This advance, which is interest-free, was made to assist the Corporation in financing its inventory position and is subject to review by the Treasury Board from time to time.

Net operating requirements for the year of \$59,288,000 (exclusive of depreciation of \$3,577,000 charged for cost ascertainment purposes) were provided for by Vote 41, Appropriation Act No. 6, 1960 in the amount of \$62,085,000, the unexpended portion of \$2,797,000 drawn down being refunded to the Receiver General. The following is a summary of the operating results for the past two years:

	Year ended March 31	
	1961	1960
Expense		
Cost of production and distribution	\$94,714,000	\$88,337,000
Selling and general administration	6,239,000	5,703,000
Total expense, including depreciation	100,953,000	94,040,000
Advertising income, etc.	38,088,000	38,564,000
Net expense	\$62,865,000	\$55,476,000

Slightly over half of the increase shown above in the Corporation's total expense for the year was due to increases in salaries and related expenses, including the employment of an additional 351 employees. The remainder of the increased requirement and the increased salary expense for newly engaged personnel were due to a slight increase in broadcasting hours, extension of television and radio networks to improve coverage, operating costs of a new television station, a full year's operating costs of a station opened during the previous year and increased coverage by the Corporation's northern radio service.

A summary of the engineering and program production inventories, together with the prepaid film and script rights at March 31, 1961, compared with corresponding figures at March 31, 1960, is as follows:

	As at March 31		Increase (Decrease)
	1961	1960	
Engineering, stationery and production supplies	\$ 2,185,000	\$ 2,007,000	\$ 178,000
Program production in progress	2,129,000	1,335,000	794,000
Prepaid film rights	1,809,000	2,705,000	(896,000)
Prepaid script rights	173,000	121,000	52,000
	<u>\$ 6,296,000</u>	<u>\$ 6,168,000</u>	<u>\$ 128,000</u>

The increase in program production in progress is largely due to increased use of the videotaping process. The decrease in prepaid film rights reflects a tightening up in commitment procedures and reduction in terms for which rights were acquired. The amounts shown as at March 31, 1961 are after recording the following write-offs:

Engineering, stationery and production supplies	\$ 95,000
Programs completed or in progress	53,000
Film and script rights written down, expired and written off	242,000
	<u>\$ 390,000</u>

There was also written off during the year a net book loss of \$221,000 on the retirement of capital assets originally purchased at a cost of \$390,000.

Capital requirements of the Corporation during the year totalled \$5,584,000 and were provided under Vote 42, Appropriation Act No. 6, 1960 in the amount of \$7,647,000, the unexpended portion of \$2,063,000 being refunded to the Receiver General.

During the last two years, \$964,000 was expended in connection with the proposed consolidation of facilities in Toronto and Montreal. The estimate of the cost of the proposed consolidation for Toronto, Montreal and Ottawa is set forth in summary form in the Minutes of Proceedings of the Special Committee on Broadcasting (Appendix B of No. 27 of June 7, 1961, page 804) and amounts to \$46,560,000 during the five year period ending March 31, 1966, together with \$26,986,000 required subsequently to complete the projects, a total of \$73,546,000. An estimated cost of the projects of \$69,335,000, approved by the board of directors on October 30, 1959, was submitted to the Minister of National Revenue and the Minister of Finance in accordance with section 35(2) of the Broadcasting Act on November 6, 1959.

In our report to the board of directors covering our examination of the Corporation's accounts for the year ended March 31, 1960, we drew the attention of the board to various weaknesses in the system of internal control and made recommendations designed to correct these weaknesses. At the same time we suggested to the board that a useful purpose might be served by having the Corporation's organizational structure in terms of its present size, complexity and cost made the subject of a study by independent management consultants working in co-operation with the Audit Office.

In the course of our examination this year we found that a number of the matters previously noted had been remedied, whilst the suggested study of the Corporation's organizational structure is being currently undertaken by the Royal Commission on Government Organization.

Other matters remaining under review at this time include the effective functioning of the newly formed internal audit section and the importance of more effective stores control. These points, together with others noted during the course of our examination for the year, have been directed to the attention of the board of directors.

137. *Canadian National (West Indies) Steamships Limited.* This company, which was incorporated in 1927 under the Companies Act, c. 79, 1906, ceased operations in 1958 on the sale of its then remaining eight vessels to Cuban interests.

The fleet was sold for \$2,800,000, terms of settlement calling for a cash payment of \$560,000 and five equal annual instalments of \$448,000 each with interest at 5% on the unpaid balance. The cash payment and the first two instalments have been received leaving a balance of \$1,344,000, excluding accrued interest, outstanding at December 31, 1960, representing the three remaining instalments due in 1961, 1962 and 1963.

The management of the company, formerly undertaken by officers of the Canadian National Railways, was transferred to departmental officers in May 1960, and the head office moved from Montreal to Ottawa.

The company is in the process of winding up, and on November 24, 1960 it declared a dividend amounting to \$1,789,000 to be paid to the Receiver General of Canada. The remaining equity of the Crown at December 31, 1960 amounted to \$3,877,000, representing the following net assets:

Balance due under agreement of sale of vessels and accrued interest	\$ 1,369,000
Investment in bonds, at cost, and accrued interest	1,176,000
Deposit with Receiver General of Canada	1,325,000
Cash on hand	21,000
	<hr/>
	3,891,000
Less matured bonds unclaimed	14,000
	<hr/>
	\$ 3,877,000
	<hr/>

The bonds unclaimed are bearer bonds of the company's issue of 25-year 5% bonds guaranteed by the Government of Canada, which matured on March 1, 1955.

138. *Canadian Overseas Telecommunication Corporation.* This Corporation was established in 1949 by the Canadian Overseas Telecommunication Corporation Act, now c.42, R.S., section 6 of which sets out the purposes, namely, to establish, maintain and operate external telecommunication services for the conduct of public communications; to carry on the business of public communications; to improve the efficiency of telecommunication services generally; and to co-ordinate Canada's external telecommunication services with those of other parts of the Commonwealth.

In 1950 the Corporation acquired the telecommunication facilities in Canada of Cable and Wireless Limited and Canadian Marconi Company Limited which provided cable and radio-telegraph circuits between Canada, the United Kingdom, Australia, New Zealand, New York and St. Pierre and Miquelon, and radio-telephone services with the United Kingdom, Newfoundland and the West Indies. Subsequent developments have included: participation with the United Kingdom and the United States in the laying of a trans-Atlantic telephone cable; providing, in a joint undertaking with the United Kingdom, for a new submarine cable between the two countries; and entering into a joint commonwealth project for the construction of a trans-Pacific cable system between Canada and Australia via New Zealand.

At March 31, 1961 the Crown's equity in the Corporation amounted to \$35,639,000, comprising \$31,686,000 of advances for capital purposes, together with an accumulated surplus of \$3,953,000.

Funds are provided by parliamentary appropriations to meet capital requirements for equipment construction and improvements. The capital budget of the Corporation for the year under review, approved by the Governor in Council, totalled \$18,591,000, whereas actual capital expenditures in the year amounted to \$10,200,000 of which a net amount of \$9,097,000 was advanced by the Crown.

The following tabulation summarizes the income and expense of the Corporation during the past two years:

	Year ended March 31	
	1961	1960
Income		
Telephone and telegraph	\$ 3,954,000	\$ 3,673,000
Circuit rentals	2,161,000	1,000,000
Program transmission, facsimile, delivery and pick-up and telex ..	892,000	879,000
Miscellaneous income	266,000	226,000
	<u>7,273,000</u>	<u>5,778,000</u>
Expense		
Salaries, wages, employee benefits	2,163,000	2,082,000
Rental of circuits, etc.	949,000	864,000
Operation, maintenance and repairs—buildings, plant and equipment	540,000	407,000
Interest	517,000	372,000
Provision for depreciation	1,056,000	628,000
Other expense	310,000	296,000
	<u>5,535,000</u>	<u>4,649,000</u>
Less: Estimated amount recoverable from Commonwealth Network..	953,000	757,000
	<u>4,577,000</u>	<u>3,892,000</u>
Profit before income tax	2,696,000	1,886,000
Provision for income tax	1,332,000	938,000
Net profit	<u>\$ 1,364,000</u>	<u>\$ 948,000</u>

The income increase of almost \$1,500,000 in the year ended March 31, 1961 was largely the result of increased circuit rentals arising out of the rental of a new cable which came into service on October 1, 1960.

The Corporation does not maintain detailed cost records which would allow a comparison of the revenue from individual traffic operations with the related operating costs for the purpose of measuring operating efficiency and profitability.

During the course of our examination, we noted certain weaknesses in the system of internal control which have been brought to the attention of the management of the Corporation and suggestions were made regarding the remedial measures that might be taken. It was also suggested that, in view of the increasing size and complexity of the Corporation's operations, consideration should be given to the establishment of an internal audit section.

139. *Cornwall International Bridge Company Limited.* This company operates a toll bridge system over the St. Lawrence River between Cornwall and Rooseveltown, N.Y. The company was incorporated in 1949 under the Companies Act, 1934, to operate a roadway on railroad bridges that had been leased from two railway companies. These railroad bridges were acquired by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a wholly-owned United States government corporation) in connection with the construction of the Seaway, and are being replaced by two high-level highway bridges, one of which has been completed. The outstanding stock of the bridge company was purchased jointly by the Seaway entities from the private shareholders in 1957 for \$480,000, of which \$200,000 was paid by the Authority. The shares of the company are owned equally by the two Seaway entities with the Corporation's shares being held in trust by the Authority.

Each Seaway entity is represented by four directors on the board of the bridge company. By agreement between the Authority and the Corporation, the annual revenues of the bridge company are applied in the following order of priority:

1. In payment of all operating, administrative and general expenses of the bridge company.
2. In amortization of the costs of constructing the North Channel bridge by the Authority, plus interest, over a period of fifty years. Any amount due under this provision which is not paid is to be recorded as a liability of the bridge company to be paid prior to any distribution of future revenues.
3. The balance to be distributed on a fifty-fifty basis between the Authority and the Corporation.

A comparative summary of the operations of the company for its past two financial years follows:

	Year ended September 30	
	1960	1959
Income		
Bridge tolls	\$ 333,000	\$ 315,000
Other	4,000	5,000
	<u>337,000</u>	<u>320,000</u>

	Year ended September 30	
	1960	1959
Expense		
Salaries and wages	41,000	35,000
Maintenance and repairs	25,000	37,000
Municipal taxes and grants	12,000	16,000
Other expenses	47,000	29,000
	<hr/> 125,000	<hr/> 117,000
Provision for amortization of cost of North Channel bridge, owned by The St. Lawrence Seaway Authority	56,000	
	<hr/> 181,000	<hr/> 117,000
Fee for management, use of right-of-way over bridges, etc., payable to The St. Lawrence Seaway Authority (50% in trust for the Saint Lawrence Seaway Development Corporation)	\$ 156,000	\$ 203,000
	<hr/> <hr/>	<hr/> <hr/>

The decrease of \$12,000 in the cost of maintenance and repairs for the year ended September 30, 1960, notwithstanding additional snow removal costs, was due to a non-recurring expense of approximately \$22,000 having been incurred in the preceding year.

The provision of \$56,000 for amortization of the cost of the North Channel bridge, over 50 years at 4% interest, is based on construction costs incurred by the Authority to September 30, 1959 which, with interest, amounted to \$1,202,000. We were informed that the cost of the bridge may exceed \$7,000,000 when it is completed early in 1962, and in this event the annual amount required for amortization will be of the order of \$325,000. As this sum is approximately the amount of the company's present annual income, substantial deficits can presumably be expected in future years unless there is a considerable increase in traffic.

The shareholders' equity in the company as at September 30, 1960 totalled \$110,000, comprising \$50,000 of capital stock and a surplus of \$60,000. This equity is likely to be reduced by a capital loss of over \$59,000 in 1962 if, as is anticipated by the management, certain of the assets of the company in the form of buildings, roads and the bridge are abandoned or given to municipalities when the Authority has completed construction of the new North Channel bridge, and when the State of New York has completed its highway crossing over the Raquette River.

The accounts of the company are maintained by The St. Lawrence Seaway Authority and periodic test examinations are made by the Authority's internal auditors.

140. *Eldorado Aviation Limited.* Eldorado Aviation Limited is a wholly-owned subsidiary of Eldorado Mining and Refining Limited, incorporated in 1953 under the Companies Act. Operating from its headquarters in Edmonton, the company provides air transportation services exclusively on behalf of Eldorado Mining and Refining Limited and Northern Transportation Company Limited, which share the cost of operations on a cost-per-ton mileage basis.

The equity of Eldorado Mining and Refining Limited in the company at December 31, 1960 totalled \$363,000, consisting of a loan, \$107,000; capital stock, \$28,000; and surplus, \$228,000. The loan is being repaid by means of annual payments equivalent to the provisions for aircraft depreciation.

The following is a comparative summary of the expenses of the company for its past two financial years:

	Year ended December 31	
	1960	1959
Salaries and wages	\$ 225,000	\$ 224,000
Supplies	238,000	264,000
Provision for depreciation	107,000	153,000
Repairs	99,000	107,000
Insurance	65,000	66,000
Contributions to employees' pension plan	63,000	48,000
Other expenses	95,000	100,000
	<u>\$ 892,000</u>	<u>\$ 962,000</u>

The expenses for 1960 were reimbursed to the extent of \$787,000 by Eldorado Mining and Refining Limited and \$105,000 by Northern Transportation Company Limited.

The reduction shown above in the provision for depreciation resulted from the use of rates applied on the reducing balance method, the rate in the case of aircraft being 40%. The contributions to the employees' pension plan include \$40,000 in each year towards the cost of additional benefits to employees in respect of past service which arose when the parent company introduced a new pension plan in 1959. A balance of \$80,000 of the \$160,000 cost remains to be amortized over the next two years.

Capital additions during the year ended December 31, 1960 totalled \$101,000 while write-offs and disposals of capital assets amounted to \$55,000. The Order in Council approving the company's capital budget for the year stipulated that expenditures in respect of each of the items provided for could exceed the amount shown by not more than 10%, without further approval, provided that the total expenditures did not exceed \$105,000. It was noted in the course of the audit that the actual expenditures incurred for aircraft parts, \$18,379, exceeded the \$10,000 amount approved by \$8,379 without the approval of the Governor in Council having been obtained.

141. *Eldorado Mining and Refining Limited.* Eldorado Mining and Refining Limited was incorporated in 1945 under the Companies Act, 1934, following the expropriation in 1944 by the Government of the shares of the former privately owned company originally incorporated in 1927 as Eldorado Gold Mines Limited.

The principal functions of the company are to produce, refine and sell or dispose of uranium and other allied products. In 1948 it was also charged with the responsibility for the purchase and disposal of all uranium produced in Canada although, in recent years, private producers have been free, under certain circumstances, to sell uranium without reference to the company. The head office of the company is in Ottawa. The mine operations are now confined to the property located in the vicinity of Uranium City,

Saskatchewan, as the original mine at Port Radium, N.W.T., was closed in September 1960 on the exhaustion of its ore bodies. The company also operates a uranium refinery at Port Hope, Ontario.

The authorized capital of the company is 110,000 shares of no par value, of which 70,500 have been issued. With the exception of the seven qualifying shares issued to the directors, all shares are registered in the name of the Minister of Trade and Commerce. The Crown's equity in the company at December 31, 1960 was \$51,845,000, comprising capital stock, \$6,586,000, and surplus, \$45,259,000. During the year dividends of \$4,935,000 were paid to the Receiver General of Canada.

The net profit for the year ended December 31, 1960 was \$3,474,000 and arose, in comparison with the net profit of \$4,134,000 for the preceding year, as follows:

	Year ended December 31	
	1960	1959
Income		
Sales of uranium concentrates and revenue from refining services ..	\$36,186,000	\$37,797,000
Miscellaneous income	637,000	616,000
	<u>36,823,000</u>	<u>38,413,000</u>
Expense		
Mining, refining and other expenses	18,926,000	18,698,000
Purchased ores and concentrates	413,000	2,471,000
Provision for depreciation	3,876,000	6,346,000
Amortization of cost of acquiring rights to deliver concentrates on cancellation of contract with another producer	5,068,000	
Amortization of pre-production, mine development and other deferred expenditures	766,000	1,341,000
Reduction in valuation of inventories	1,600,000	
Cost of additional benefits in respect of past service, arising on establishment of new pension plan for employees		1,043,000
	<u>30,649,000</u>	<u>29,899,000</u>
	6,174,000	8,514,000
Provision for income tax	<u>2,700,000</u>	<u>4,380,000</u>
Net income	<u>\$ 3,474,000</u>	<u>\$ 4,134,000</u>

Although gross income from sales of uranium concentrates was \$1,103,000 greater than the previous year, this increase was more than offset by the decline in revenue from refining services, due partly to the lower number of pounds refined and partly to a reduction in the unit return on refining.

Included in mining, refining and other expenses are costs of \$197,000 associated with the shutdown and loss on disposal of materials at Port Radium.

The decrease of \$2,058,000 in purchased ores and concentrates is largely explained by the company having re-acquired concentrates to the value of \$1,638,000 in 1959 from the United States Atomic Energy Commission, for metal conversion—a transaction which had no counterpart in 1960.

The reduction of \$2,470,000 in the provision for depreciation was due mainly to (a) reduction in the rate of write-off on the Beaverlodge assets by reason of the extension of the amortization period upon acquisition of the rights to deliver concentrates of another

producer, (b) no provision being made for certain uranium salt and metal production plants which were idle throughout 1960, and (c) no provision being required in respect of Port Radium assets for which full provision for depreciation had been attained in the previous year.

In March 1960 the company negotiated the cancellation of a contract under which another uranium producer was to deliver to Eldorado a quantity of concentrates which the company was committed, under a parallel agreement, to sell to the United States Atomic Energy Commission. This enabled the company to fulfil the balance of the other producer's commitment out of production from its own ore body and thus guarantee the extension of the production period of its Beaverlodge mine. The cost of the cancellation was slightly in excess of \$19 million and is being amortized pro rata on the basis of the total poundage which then remained to be supplied out of the Beaverlodge mine. After amortizing \$5,068,000 in the year, \$14 million remained to be amortized by September 1964.

The reduction from \$1,341,000 in 1959 to \$766,000 in 1960 in the amortization of pre-production and mine development expenses was also occasioned by the extension of the amortization period arising on acquisition of the rights to deliver concentrates of the other producer.

There were certain reductions in valuation of inventories in the current year which had no counterpart in 1959. A summary follows:

Port Hope uranium metal and miscellaneous products	\$ 927,000
Port Radium leach plant, commissary and general stores	639,000
Peace River Sawmill stores and supplies	34,000
	<hr/>
	\$ 1,600,000
	<hr/>

The object of these adjustments was to reduce the value of the relative inventories to estimated realizable values. In addition, a provision of \$205,000 was made for the possible obsolescence of stores at the Beaverlodge mine. The company proposes to provide \$200,000 annually until a full reserve is set up for slow-moving and obsolete stores having an original cost value of approximately \$1,100,000.

The cost of additional benefits in respect of past service arising on establishment of the new pension plan for employees, totalling \$1,043,000 in 1959, represented a non-recurring expense for which there was no similar charge in 1960.

During the year under review, the company procured from other producers and sold at cost to the United States Atomic Energy Commission and to the United Kingdom Energy Authority uranium concentrates valued at \$234 million.

A study of the organization and internal controls of the company and its two wholly-owned subsidiaries, Eldorado Aviation Limited and Northern Transportation Company Limited, was completed during the year by a firm of management consultants whose reports have been made available to the Audit Office. Most of the essential recommendations contained in these reports have been implemented and the remainder are in process of implementation or are under consideration.

142. *Export Credits Insurance Corporation.* This Corporation was established in 1944 by the Export Credits Insurance Act, c.105, R.S., to provide insurance to Canadian exporters of goods and services against the risk of non-payment by foreign buyers. The Corporation is intended to operate on a self-sustaining basis from premiums charged on contracts of insurance. Where the Corporation is of the opinion that a proposed contract of insurance would impose upon it a liability for a term or in an amount in excess of that which it would normally undertake, the Governor in Council may, under section 21 of the Act, authorize the Corporation to enter into the proposed contract of insurance. In the event of a loss under this section (and there have been none), the moneys required to discharge the liability are payable from unappropriated moneys in the Consolidated Revenue Fund. A 1959 amendment to the Act enables the Governor in Council, through the Corporation, to provide financing for long term export sales of capital goods out of unappropriated moneys in the Consolidated Revenue Fund. A number of applications to finance such transactions were under consideration at the year-end. The Corporation's head office is in Ottawa with branch offices in Montreal and Toronto.

The Crown's equity in the Corporation at December 31, 1960 was \$15,746,000, consisting of share capital of \$5,000,000, capital surplus of \$5,000,000 and earned surplus of \$746,000, together with an underwriting reserve of \$5,000,000. All of these funds, as well as deferred premium income of \$892,000, were invested in Government of Canada bonds having a par value of \$16,350,000.

The following is a comparative summary of transactions for the past two years:

	Year ended December 31	
	1960	1959
Income		
Premiums earned	\$ 756,000	\$ 673,000
Expense		
Salaries and benefits	192,000	177,000
Travel	15,000	16,000
Other	43,000	42,000
	250,000	235,000
	506,000	438,000
Policyholders' claims		
Payments	520,000	176,000
Recoveries	436,000	335,000
	84,000	(159,000)
Excess of premium income over expense and policyholders' claims	422,000	597,000
Add: Interest on investments	626,000	567,000
	1,048,000	1,164,000
Deduct:		
Transfer to underwriting reserve	95,000	1,164,000
Provision for income tax	207,000	
	302,000	1,164,000
Surplus for year, transferred to earned surplus account	\$ 746,000	—

The following is a summary of transactions during the year in respect of policy-holders' claims for losses:

Type of claim	Outstanding Jan. 1, 1960	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1960
Insolvency	\$ 150,000	\$ 134,000	\$ 5,000	\$ 10,000	\$ 269,000
Default	157,000	176,000	33,000	28,000	272,000
Exchange transfer	2,178,000	210,000	398,000	1,000	1,989,000
Other	1,000				1,000
	<u>\$ 2,486,000</u>	<u>\$ 520,000</u>	<u>\$ 436,000</u>	<u>\$ 39,000</u>	<u>\$ 2,531,000</u>

In the course of our examinations of claims paid, we noted that part of the evidence supporting some claims by one exporter for accounts overdue more than one year consisted of photostatic copies of accepted drafts drawn by the exporter's agent, and that there was a similarity in handwriting in the signatures of different buyers. At our suggestion, some of the photostatic copies of the drafts were sent to the R.C.M.P. for examination by a handwriting expert and the Canadian Commercial Counsellor in the buyer's country was asked to contact a number of the buyers to see if they admitted owing the amounts shown on outstanding drafts purportedly signed by them. Since completing our audit for the year, we have been informed that as a result of these enquiries the agent has admitted having collected the money for which claims were made for non-payment. The exporter has been asked to refund \$70,000 in claims paid on the evidence of the apparently forged documents.

Of the amount of \$2,531,000 in claims shown above as outstanding as at December 31, 1960, the Corporation anticipates making substantial recoveries, particularly in respect of those claims amounting to \$1,989,000 which were paid because of exchange transfer difficulties in the buyers' countries.

The liability of the Corporation under the contracts of insurance issued and outstanding as at December 31, 1960 totalled \$174,914,000 (1959, \$159,117,000) of which \$110,067,000 (1959, \$98,956,000) was for contracts entered into under section 21 of the Act, which, as previously mentioned, provides that all moneys required to discharge the liabilities arising under such contracts are payable to the Corporation by the Minister of Finance out of unappropriated moneys in the Consolidated Revenue Fund.

143. *Farm Credit Corporation.* This Corporation was established in 1959 by the Farm Credit Act, c. 43, 1959, to succeed the Canadian Farm Loan Board which had operated since 1929. The purpose of the Corporation is to make, administer and supervise long term mortgage loans to farmers. The head office is in Ottawa and there are seven branch offices and 151 field offices (jointly operated with the Veterans' Land Act administration) throughout Canada.

At March 31, 1961 the equity of the Government of Canada in the Corporation amounted to \$163,186,000, comprising: capital, \$6,400,000; loans, \$149,354,000; accrued interest on loans, \$3,896,000; and reserve for losses \$3,536,000. During the year under review the Government paid the Corporation \$1,400,000 to increase its capital and advanced a further net \$38,654,000 by way of loans.

During the year, 5,162 loans were made to farmers to a total of \$52,305,000, and repayments amounted to \$11,015,000. Loans outstanding at the year-end, including accrued interest, amounted to \$162,426,000 compared with \$120,152,000 at the end of the previous year.

During the past two years the Corporation has borrowed from the Government of Canada \$38,500,000 at an interest rate of 5% and \$30,800,000 at 5¼%. This money was loaned to farmers at a rate of 5% which is the rate set by section 16 (c) of the Farm Credit Act. It is estimated that during the period of repayment the Corporation will suffer a loss of \$3,000,000 on the \$30,800,000 that was borrowed at 5¼% and loaned at 5%. In addition to the interest loss, these interest rates provide no margin to meet administrative expenses and losses on loans.

The following is a comparative summary of the income and expense of the Corporation for the past two years:

	Year ended March 31	
	1961	1960
Income		
Interest earnings	\$ 6,655,000	\$ 5,044,000
Deduct: Interest on loans from the Government of Canada	5,452,000	3,751,000
	<hr/>	<hr/>
	1,203,000	1,293,000
Appraisal and legal fees	377,000	112,000
	<hr/>	<hr/>
	1,580,000	1,405,000
	<hr/>	<hr/>
Expense		
Salaries and employee benefits	1,213,000	816,000
Fees and expenses of outside appraisers	173,000	101,000
Office accommodation	117,000	69,000
Travel	107,000	69,000
Printing, stationery and office supplies	89,000	43,000
Postage, express, telephone and telegraph	40,000	22,000
Other	44,000	45,000
	<hr/>	<hr/>
	1,783,000	1,165,000
	<hr/>	<hr/>
Net loss (profit) carried to reserve for losses	\$ 203,000	\$ (240,000)
	<hr/>	<hr/>

The increase of \$618,000 in expenses for the year ended March 31, 1961 resulted largely from the growth in lending activity and reorganization of the Corporation from a staff of 183 at March 31, 1960 to 308 at March 31, 1961. The full effect of this will appear in the accounts for the next year when the Corporation anticipates that administrative expenses will rise by a further \$500,000.

In June 1960 the Toronto branch of the Corporation moved to larger quarters in order to accommodate increased staff. The Corporation was unsuccessful in its efforts to terminate a five-year lease on the premises vacated, the unexpired portion of which runs to July 31, 1963 at a monthly rental of \$825. The cost of the unused space amounted to \$10,300 up to July 16, 1961 when the premises were sublet at a rental of \$400 per month.

144. *Northern Transportation Company Limited.* This company is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Originally incorporated under an Alberta charter in 1935, the shares of the company were acquired when the Government expropriated the capital stock of Eldorado Mining and Refining Limited in 1944. Northern Transportation Company (1947) Limited was subsequently incorporated under the Companies Act, 1934, to take over the business and undertaking of the Alberta company, and in 1952 the corporate name was changed to Northern Transportation Company Limited. The company operates a transportation system as a common carrier on the Mackenzie River water system.

The equity of Eldorado Mining and Refining Limited in the company amounted to \$5,774,000 as at December 31, 1960, comprising capital stock of \$152,000, surplus of \$5,122,000, and reserve for marine insurance of \$500,000.

The following is a comparative summary of the operations of the company for its past two financial years:

	Year ended December 31	
	1960	1959
Income		
Freight earnings	\$ 2,728,000	\$ 3,737,000
Miscellaneous income	151,000	110,000
	<u>2,879,000</u>	<u>3,847,000</u>
Expense		
Operating expenses	1,817,000	2,259,000
Provision for depreciation	704,000	768,000
Administrative expenses	293,000	260,000
	<u>2,814,000</u>	<u>3,287,000</u>
Operating profit	65,000	560,000
Special contribution to employees' pension plan		400,000
Provision for income tax	5,000	76,000
Net profit	<u>\$ 60,000</u>	<u>\$ 84,000</u>

The \$1,000,000 reduction in freight earnings in 1960 was principally the result of the shutdown of the parent company's mining operations at Port Radium, N.W.T., and the closing of a number of mines in the vicinity of Uranium City. The \$442,000 decline in operating expenses during the year reflected this decrease in operating activity. The special contribution of \$400,000 to the employees' pension plan in 1959 represented the cost of additional benefits in respect of past service, resulting from the establishment by the parent company of a new pension plan for employees.

In the interests of reducing overhead expenses, the company decided to allow its commercial insurance coverage on marine equipment to lapse during the year under review, at the same time increasing its own internal reserve for marine insurance from \$100,000 to \$500,000 by the transfer of \$400,000 from surplus account. The full amount of the reserve is funded and invested in short-term deposits.

145. *Polymer Corporation Limited*. This company was incorporated in 1942 under the Companies Act, 1934, in accordance with the provisions of section 6 of the Department of Munitions and Supply Act, c.3, 1939, as amended by c.31, 1940. The company manufactures synthetic rubber and chemicals at its plant in Sarnia, where its head office is also located.

The equity of the Crown at December 31, 1960 amounted to \$64,600,000, consisting of capital stock of \$30 million and surplus of \$34,600,000. During the year under review, dividends of \$3,000,000 were paid to the Receiver General of Canada.

During the year a study company, Polymer Corporation (France) S.A.R.L., was formed in France for the purpose of examining the practicability of building and operating a special purpose synthetic rubber plant in that country. The incorporation of the subsidiary company, Polymer Corporation (SAF), was obtained in January 1961 and an investment of \$1,293,228, being a subscription of 25% on 254,599 shares, was made. The equity capital of the subsidiary company is held 95% by Polymer Corporation Limited and 5% by the Banque de Paris et des Pays-Bas.

Since operations for the year ended December 31, 1959 were affected to a considerable extent by a strike of employees, the results achieved in the year ended December 31, 1958 have been used as a basis of comparison with the year under review in the summary of operations which follows:

	Year ended December 31	
	1960	1958
Sales	\$85,257,000	\$75,075,000
Other income	658,000	465,000
	<hr/> 85,915,000	<hr/> 75,540,000
Cost of goods sold	62,742,000	60,062,000
Selling, administrative and research expenses	3,672,000	3,033,000
	<hr/> 66,414,000	<hr/> 63,095,000
Net income before provision for income tax	19,501,000	12,445,000
Provision for income tax	9,650,000	6,068,000
Net income	<hr/> <u>\$ 9,851,000</u>	<hr/> <u>\$ 6,377,000</u>

In recent years the company has been expanding its sales activities into overseas markets. The effect is evidenced by the fact that, while in 1952 only 29% of sales were to overseas customers, by 1958 the percentage had increased to 64% and by 1960 to 67%.

Inventories at December 31, 1960 amounted to \$16,694,000, an increase of \$3,854,000 over those at the end of the preceding year. The inventory turnover in terms of net sales, however, was 5.10 in 1960 as compared with 4.66 in 1959.

Reference is made to the Fifth Report, 1961 of the Public Accounts Committee where, in paragraphs 94 to 99, inclusive, the Committee reported upon its examination into the affairs of Polymer Corporation Limited during the course of its hearings. In paragraph 99 the Committee recommended that the Auditor General be appointed

either the auditor or joint auditor of Polymer Corporation (SAF). In this connection, the Auditor General was notified on October 20, 1961 of his appointment as auditor of this French subsidiary company.

146. *The St. Lawrence Seaway Authority.* The Authority was established by the St. Lawrence Seaway Authority Act, c. 242, R.S., to construct, maintain and operate a deep waterway between Montreal and Lake Erie, either wholly in Canada or in conjunction with works to be undertaken by an appropriate authority in the United States. Agreement was reached whereby The St. Lawrence Seaway Authority would construct the necessary channels, canals and locks on the Canadian side of the St. Lawrence River and the Saint Lawrence Seaway Development Corporation would construct channels, canals and locks on the United States side. The reports of the Toll Committees of the two Seaway entities were approved by the governments of Canada and the United States on March 9, 1959. The Seaway opened for navigation on April 25, 1959.

On April 1, 1959 the Authority took over responsibility for the operation and maintenance of the Lachine, Cornwall, Welland and Sault Ste. Marie canals from the Department of Transport.

The Act provides for three members to constitute the Authority. The head office is at Ottawa with operating headquarters at Cornwall and district headquarters at St. Lambert, Cornwall and St. Catharines.

The Crown's equity at December 31, 1960 is shown on the Authority's balance sheet as follows:

Capital assets transferred from Department of Transport, April 1, 1959 (including	
Welland Ship Canal at a value of \$130,704,000)	\$ 181,816,000
Loans under section 25 of the Act	305,500,000
Interest on loans—matured and capitalized	19,427,000
	<hr/>
	506,743,000
Deduct: Deficit	12,177,000
	<hr/>
	\$ 494,566,000
	<hr/>

A major change in financial and accounting policy is reflected in the financial statements of the Authority during the year under review. It is the opinion of the Authority that basically the Seaway is expected (a) to pay its way so far as out-of-pocket operating costs are concerned, (b) to replace equipment and other assets with lives of less than 50 years, and (c) to pay interest on amounts borrowed and to amortize the principal over 50 years.

Accordingly the Authority has decided that depreciation should not be included in the operating costs of the Seaway, or otherwise provided, for the reason that the major assets, namely, land, dykes and channels, are non-depreciable while the majority of the other facilities such as locks and structures of a similar nature have a useful life of more than 50 years. In place of depreciation, operations are to be charged with amounts sufficient to provide for amortization of debt over the statutory period of 50 years, interest on debt and provision for replacement of assets, e.g., movable equipment, etc.,

with an estimated useful life of less than 50 years. This decision was implemented during the year under review by reversing depreciation amounting to \$4,062,000 set up in 1959, and by providing an amount of \$134,000 with respect to 1959 for replacement of movable equipment.

We understand that the new policy and the rates to be used in arriving at the annual provision for replacement are in conformity with those of the Saint Lawrence Seaway Development Corporation and were adopted by both Seaway entities with a view to providing a uniform calculation of costs.

The operating costs for 1960 were charged with \$12,791,000 for interest and \$92,000 for replacement of movable equipment. No provision was made for amortization of principal during the year because the financing plans call for payment of interest only, each year up to and including 1962, with the principal subject to amortization during the period from 1963 to 2009.

It will be noted that the Authority's new policy, as outlined above, makes no provision for the replacement of movable assets such as lock gates, etc., which have an estimated useful life of more than 50 years. Unless the Authority is to return to a policy of debt financing immediately the present indebtedness has been retired as required by the St. Lawrence Seaway Authority Act, provision must be made for the replacement of assets of the types mentioned, in the fifty-first and subsequent years. Because of the provision of section 16 of the Act that tolls provide a revenue sufficient to defray operating costs, and, as operating costs include provision for replacement of movable assets regardless of the duration of their useful life, the financial plans of the Authority should include provision for the continued operation of the Seaway facilities beyond the period of 50 years provided by the Act for retirement of its indebtedness.

Reference was made in our report dated March 30, 1961 to the Minister of Transport under section 87 of the Financial Administration Act to the indebtedness of the Authority to the Government of Canada, which was as follows at December 31, 1960:

Loans under section 25 of the Act	\$ 305,500,000
Interest on loans—matured and capitalized	19,427,000
Interest on capital debt, unpaid for the year 1960	9,649,000
	<hr/>
	\$ 334,576,000
	<hr/>

Borrowings in 1960 amounted to \$20,000,000. During the year the Authority repaid from its 1959 net earnings \$5,000,000 in reduction of the interest matured and capitalized, and from its 1960 net earnings \$3,500,000 of the \$13,149,000 interest due for that year. The balance of \$9,649,000 was repaid on March 30, 1961, a further loan of \$9,500,000 having been obtained for that purpose.

Section 13 of the St. Lawrence Seaway Authority Act limits the borrowings of the Authority to \$335,000,000 and therefore the borrowing of \$9,500,000 to pay interest has in fact reduced the amount the Authority may borrow for construction purposes. Furthermore, as operations are charged with the amounts required to amortize the indebtedness of the Authority, the borrowing of funds to pay interest will result in a duplicate charge against operations, once by way of interest and again by way of repayment of principal (see also paragraph 63).

The following is a summary of the income and expense of the Canadian section of the deep waterway from Montreal to Lake Ontario and the Welland Ship Canal for the year ended December 31, 1960, with comparative figures for the period April 25 to December 31, 1959:

	January 1 to December 31, 1960	April 25 to December 31, 1959
Income		
Tolls	\$ 8,483,000	\$ 8,329,000
Other income	878,000	885,000
	<u>9,361,000</u>	<u>9,214,000</u>
Expense		
Operating expenses	2,321,000	1,642,000
Maintenance expenses	1,688,000	701,000
Operating and maintenance supervision	864,000	574,000
Administrative expenses	1,324,000	1,135,000
	<u>6,197,000</u>	<u>4,052,000</u>
Deduct: Portion of supervision and administrative expenses applicable to non-toll canals	288,000	99,000
	<u>5,909,000</u>	<u>3,953,000</u>
Net operating income before providing for interest and for replacement of movable equipment	3,452,000	5,261,000
Interest on loans from the Government of Canada	12,791,000	7,994,000
Provision for replacement of movable equipment	92,000	
Provision for depreciation		3,955,000
	<u>12,883,000</u>	<u>11,949,000</u>
Net loss	<u>\$ 9,431,000</u>	<u>\$ 6,688,000</u>

The \$9,431,000 net loss for the year ended December 31, 1960 compares with a net loss of \$2,745,000 for the period April 25 to December 31, 1959, after taking into account adjustments resulting from the discontinuance of depreciation accounting.

The extent by which revenues in 1960 fell short of meeting expenses in each of the two sections of the waterway operated by the Authority is shown in the following summary:

	Montreal- Lake Ontario	Welland Canal	Total
Tolls	\$ 7,156,000	\$ 1,327,000	\$ 8,483,000
Other income	132,000	746,000	878,000
	<u>7,288,000</u>	<u>2,073,000</u>	<u>9,361,000</u>
Expenses of operation, maintenance and administration	2,110,000	3,799,000	5,909,000
	<u>2,110,000</u>	<u>3,799,000</u>	<u>5,909,000</u>
Net operating profit (loss)	5,178,000	(1,726,000)	3,452,000
Interest on loans	11,532,000	1,259,000	12,791,000
	<u>11,532,000</u>	<u>1,259,000</u>	<u>12,791,000</u>
Net loss, before providing for replacement of movable equipment	\$ 6,354,000	\$ 2,985,000	\$ 9,339,000

On the Montreal-Lake Ontario section, the net operating profit of \$5,178,000 compares with a profit of \$5,894,000 for the previous period. The Welland Canal operations,

however, have resulted in a net operating loss for two successive years: \$1,726,000 in 1960 compared with \$633,000 for the preceding period.

Toll revenues for the two navigation seasons have been substantially less than had been anticipated by the Tolls Committee, as shown below:

	Montreal-Lake Ontario		Welland Canal	
	Estimated	Actual	Estimated	Actual
1959	\$ 9,301,000	\$ 7,105,000	\$ 2,060,000	\$ 1,224,000
1960	10,789,000	7,156,000	2,215,000	1,327,000
	<u>\$20,090,000</u>	<u>\$14,261,000</u>	<u>\$ 4,275,000</u>	<u>\$ 2,551,000</u>

The following is a summary of the expense, income and capital expenditures of the non-toll canals administered by the Authority for the year ended December 31, 1960, with comparative figures for the period from April 1 to December 31, 1959:

	January 1 to December 31, 1960	April 1 to December 31, 1959
Expense		
Operating expenses	\$ 648,000	\$ 273,000
Maintenance expenses	360,000	152,000
Operating and maintenance supervision	224,000	146,000
Portion of Authority's supervision and administrative expenses applicable to non-toll canals	288,000	99,000
Employee benefits	101,000	
Expenditure on uncompleted work orders, and unabsorbed overhead	85,000	160,000
	<u>1,706,000</u>	<u>830,000</u>
Income from rentals, wharfage, etc.	441,000	313,000
Operating deficit	1,265,000	517,000
Capital expenditures	1,263,000	1,139,000
Operating deficit and capital expenditures (recovered from parlia- mentary appropriations)	<u>\$ 2,528,000</u>	<u>\$ 1,656,000</u>

In our report to the Authority last year, reference was made to accounting difficulties encountered during the first period of operating the Seaway and the corrective measures which the Authority, after consultation with the Audit Office, proposed to take through the employment of more senior accounting staff, improved division of responsibilities and the strengthening of the internal audit staff. In the course of our examination of the accounts for the year under review, we have found many improvements in the system of internal control resulting from the experience gained during the first period of operations and from the reorganization and recruiting program which had been partially completed by the year-end. An internal audit staff has now been set up to carry out a detailed examination of the Authority's books and records.

147. *Northern Ontario Pipe Line Crown Corporation.* This Corporation was established by the Northern Ontario Pipe Line Crown Corporation Act, c. 10, 1956, for the

purpose of constructing the Northern Ontario section of the all-Canadian gas pipe line, and leasing (subject to approval by the Governor in Council) the said section, on completion, to Trans-Canada Pipe Line Limited, with an option to purchase.

The construction of the facilities has been financed primarily by loans made by the Government of Canada under section 6 of the Act and the Corporation's indebtedness in this respect was \$124 million as at December 31, 1960. An increase of \$500,000 during the year was the net result of additional loans amounting to \$4,000,000 and repayments of \$3,500,000. A maximum of \$130 million is placed by the Act on the amount which may be outstanding at any time.

The assets of the Corporation as at December 31, 1960 were recorded at \$130,782,000, including assets acquired or in the course of construction, \$119,361,000, and engineering, administrative and financing expenses, \$9,948,000, treated as part of the capital cost of the Northern Ontario section of the pipe line.

In October 1958, when the Northern Ontario section had been substantially completed and was ready for operation, the Corporation leased the section to Trans-Canada Pipe Line Limited for a term of 25 years, with an option to purchase the facilities, exercisable during the period of the lease. Under the terms of the lease all the expenses of operation, repairs and maintenance, taxes and other expenses of upkeep are borne by the lessee.

The Corporation's surplus account showed a balance of \$219,000 at the close of the financial year, compared to \$127,000 at the close of the previous year. The increase of \$92,000 was practically all accounted for by the difference between the \$4,392,000 of interest earned in accordance with the lease agreement with Trans-Canada Pipe Line Limited and the interest costs of \$4,300,000 on loans from the Government of Canada.

In accordance with a 1957 agreement, detailed accounting records have been maintained by Trans-Canada Pipe Lines Limited, which supervised all construction work under the overall engineering supervision of Defence Construction (1951) Limited. As expenditure vouchers were certified by Trans-Canada Pipe Lines and approved by Defence Construction (1951) Limited before payment by the Corporation, the latter needed to maintain controlling accounts only.

Departmental Operating Activities

148. Extensive trading or servicing activities are operated by several departments, for example:

- Agricultural commodities stabilization activities (operated by the Agricultural Stabilization Board under the Department of Agriculture);
- Board of Grain Commissioners (under the Department of Agriculture);
- Canadian Government Elevators (operated by the Board of Grain Commissioners under the Department of Agriculture);
- National Film Board (under the Department of Citizenship and Immigration);
- Royal Canadian Mint (under the Department of Finance);
- Post Office activities;
- Public printing and stationery activities; and
- Airport operations (under the Department of Transport).

149. Reference has been made in paragraph 117 to the statutory direction contained in the Financial Administration Act regarding the annual financial statements to be prepared by Crown corporations. There is, however, no statutory direction regarding the preparation of financial statements in respect of trading or servicing activities operated by departments. Revenues arising from such activities are included in the Public Accounts as revenues of the departments concerned, while the expenditures that involve cash outlays in the year are recorded as charges against the parliamentary appropriations for those departments. In addition, where statutory revolving funds are used to acquire materials, etc., statements summarizing the transactions in the revolving fund accounts are also included in the Public Accounts. In the few instances where financial statements showing operating results from departmental operating activities are included, the costs shown include only the direct costs arising from cash outlays by the departments concerned and do not include non-cash charges for depreciation, interest on capital, services provided by other departments, etc.

150. *Agricultural commodities stabilization activities.* The Agricultural Stabilization Board established by the Agricultural Stabilization Act, c. 22, 1957-58, has the responsibility of stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Pursuant to the Act, the Agricultural Commodities Stabilization Account was established in the Consolidated Revenue Fund and finances the activities of the Board, except for administrative expenses which are provided for through annual parliamentary appropriations.

The transactions recorded in the Account during the year ended March 31, 1961, as shown in the Public Accounts (Volume II, page 1-44) are summarized as follows in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1961	1960
Trading losses		
Pork	\$29,236,000	\$27,862,000
Butter	2,442,000	3,409,000
Dry skimmed milk		8,108,000
Eggs		4,810,000
Other	659,000	697,000
	<u>32,337,000</u>	<u>44,886,000</u>
Stabilization and deficiency payments		
Milk	11,433,000	9,844,000
Sugar beets	2,716,000	2,657,000
Eggs	2,082,000	
Wool	1,253,000	1,219,000
Soya beans	867,000	1,217,000
Other	88,000	396,000
	<u>18,439,000</u>	<u>15,333,000</u>
Net operating loss	<u>\$50,776,000</u>	<u>\$60,219,000</u>

A charge of \$2,665,000 for the balance of the preceding year's net operating loss was made against the parliamentary appropriation provided to recoup the Account for the net operating loss as at March 31, 1961 (Vote 666).

The \$50,776,000 loss shown for 1960-61 does not include administrative expenses of \$408,000 charged to the appropriation for "Agricultural Stabilization Act Administration" (Vote 10) as shown in the Public Accounts (Volume II, page 1-13). In addition certain accounting services with respect to the stabilization program are rendered by the Office of the Comptroller of the Treasury as a charge to the appropriation for the costs of that Office (Vote 108, 1960-61). Interest on the funds employed is not taken into consideration.

At March 31, 1961 inventories held by the Board amounted to \$90,383,000, comprising: pork, \$21,895,000; butter, \$66,963,000; and other commodities, \$1,525,000.

151. *Board of Grain Commissioners.* The Board of Grain Commissioners, established in 1912, operates under the authority of the Canada Grain Act, c. 25, R.S., as amended. The Board consists of three commissioners and has jurisdiction to inquire into any matter relating to: grading, weighing and storage of grain; unfair or discriminatory operation of any elevator; and failure or neglect to comply with provisions of the Act or regulations made thereunder.

A statement of the expenses incurred by the Board during the year ended March 31, 1961 is given in the Public Accounts (Volume II, page 1-49). The following is a comparative summary of the results of the Board's operations for the past two fiscal years:

	Year ended March 31	
	1961	1960
Expenditure		
Salaries, allowances, etc.	\$ 4,135,000	\$ 3,817,000
Rent	184,000	185,000
Travel	137,000	137,000
Printing and stationery	59,000	58,000
General expenses	223,000	206,000
	<u>4,738,000</u>	<u>4,403,000</u>
Revenue		
Inspections	1,616,000	1,674,000
Weighing	821,000	851,000
Registrations and cancellations	44,000	46,000
Licenses	29,000	29,000
Sundry revenue	6,000	5,000
	<u>2,516,000</u>	<u>2,605,000</u>
Excess of expenditure over revenue	<u>\$ 2,222,000</u>	<u>\$ 1,798,000</u>

The increase in salaries, allowances, etc., in 1961 over 1960 of \$318,000 is primarily due to a general increase in staff salary rates during the year. In addition, the salaries of the commissioners, amounting to \$42,000, were included for the first time in the

statement for the 1961 financial year. The increase of \$17,000 in general expenses is mainly accounted for by the installation of new equipment costing approximately \$40,000, partially offset by a reduction of \$27,000 in expenses of the Inspection Branch.

It will be noted from the above table that the \$2,222,000 excess of expenditure over revenue for the year under review is \$424,000, or 24%, greater than the excess for the previous year. This is the seventh consecutive year in which the excess of expenditure over revenue has exceeded one million dollars.

The fees charged for services provided by the Board have not been revised since 1949, while the costs of providing these services have increased substantially. As a result of a similar reference in last year's report commenting on the 1959-60 results, the Public Accounts Committee recommended in its Fifth Report, 1961 (paragraph 88) "that steps be taken to bring revenues and expenditures into balance".

152. *Canadian Government Elevators.* The Canadian Government Elevators have been operated since their inception in 1913 by the Board of Grain Commissioners, as currently provided for by section 166 of the Canada Grain Act, c. 25, R.S. There are five interior terminal elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton and Lethbridge, and a terminal elevator at Prince Rupert, together with a terminal elevator at Port Arthur which is under lease to a private company.

The Crown's equity in the Canadian Government Elevators at March 31, 1961 amounted to \$13,079,000, represented by fixed assets of \$12,183,000 acquired out of funds provided by parliamentary appropriations, together with a surplus of \$896,000. Funds provided for capital purposes in the year amounted to approximately \$25,000.

The following is a summary of the results of operations for the year ended March 31, 1961, as shown in the operating statement given in the Public Accounts (Volume II, page 1-55), in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1961	1960
Revenue		
Storage	\$ 1,256,000	\$ 1,196,000
Elevation	295,000	310,000
Cleaning	184,000	101,000
Drying	104,000	229,000
Other revenue	182,000	121,000
	<u>2,021,000</u>	<u>1,957,000</u>
Expenditure		
Salaries and wages	839,000	804,000
Maintenance	369,000	446,000
Grants in lieu of taxes	114,000	97,000
Power	93,000	93,000
Other expenditure	101,000	113,000
	<u>1,516,000</u>	<u>1,553,000</u>
Net profit	<u>\$ 505,000</u>	<u>\$ 404,000</u>

The net profit thus determined is without taking into consideration amortization of elevator construction costs, interest on funds employed, etc.

A loss of almost \$23,000 was suffered by the Lethbridge elevator during the year under review. This was the sixteenth consecutive year in which the revenues of this elevator have failed to cover even its direct costs of operation.

153. *National Film Board.* The National Film Board was established by the National Film Act, now c. 185, R.S., in order to promote production and distribution of films in the national interest. Section 18 of the Act provides for the establishment of the National Film Board Operating Account in the Consolidated Revenue Fund. The Account is credited with amounts transferred from appropriations made by Parliament for "Administration, Production and Distribution of Films and Other Visual Materials" (Vote 238, 1960-61) and also with income arising from the sale and rental of films and other visual materials.

The equity of the Government of Canada of \$4,386,000 comprises the balance of \$593,000 in the National Film Board Operating Account, which represents working capital, together with an investment of \$3,793,000 in equipment transferred to the Board at its inception or purchased out of funds provided through parliamentary appropriations, less disposals.

Under the provisions of the Act, the Board maintains an accounting system on the accrual basis in addition to the accounts maintained by the Comptroller of the Treasury on the cash basis. The financial statements for the year ended March 31, 1961, prepared from the Board's accounts and certified by the Auditor General, are included in the Public Accounts (Volume II, pages 21-4 to 6).

A summary of the Board's transactions for the year, compared with the preceding year, follows:

	Year ended March 31	
	1961	1960
Expense		
Production of films and other visual materials	\$ 2,702,000	\$ 2,441,000
Distribution of films	2,076,000	1,912,000
Administration and general services	831,000	782,000
Cost of production of films and other visual materials for government departments and others	1,211,000	1,158,000
Acquisition of equipment (net)	154,000	194,000
	<u>6,974,000</u>	<u>6,487,000</u>
Income		
Sales of film and other visual materials to government departments and others	1,416,000	1,359,000
Rentals and royalties	684,000	576,000
Miscellaneous	22,000	21,000
	<u>2,122,000</u>	<u>1,956,000</u>
Net expense	<u>\$ 4,852,000</u>	<u>\$ 4,531,000</u>

The expenses do not include any charges for amortization of building construction costs nor for office furniture and furnishings and maintenance services provided by the Department of Public Works; interest on funds employed; nor for certain accounting services provided by the Office of the Comptroller of the Treasury.

The recorded cost of equipment on hand at March 31, 1961 was \$3,793,000. The cost of additional equipment acquired during the year amounted to \$159,000, while the original cost of the equipment disposed of and written off totalled \$73,000, for which credits of \$5,000 were obtained. The items written off included over \$11,000 of equipment which could not be located on the taking of inventories over the past two years, notwithstanding several efforts made to locate the missing items.

154. *Royal Canadian Mint.* The Royal Canadian Mint operates under Part II of the Currency, Mint and Exchange Fund Act, c.315, R.S., which requires that facilities be provided for making coins of the currency of Canada and for melting, assaying and refining gold.

Revolving fund accounts are maintained for the recording of transactions in gold, silver and other metals acquired by the Mint for the purpose of its operations. The following is a summary of the charges and credits to these accounts during the year under review in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1961	1960
Inventories at beginning of year	\$11,503,000	\$11,380,000
Add: Purchases during year—		
Gold	88,667,000	88,311,000
Silver	8,433,000	6,441,000
Other metals	1,081,000	420,000
	<u>98,181,000</u>	<u>95,172,000</u>
Gold revaluation	244,000	(83,000)
	<u>109,928,000</u>	<u>106,469,000</u>
Deduct: Sales and other credits—		
Gold sales	86,315,000	90,384,000
Silver coin issues at face value	14,052,000	8,219,000
Other coin issues at face value	3,109,000	1,408,000
Silver bullion sales	521,000	25,000
Sundry credits	59,000	
	<u>104,056,000</u>	<u>100,036,000</u>
	<u>5,872,000</u>	<u>6,433,000</u>
Add: Transfers to Revenue—		
Gain on coinage operations	8,006,000	5,040,000
Gold refining gain	73,000	30,000
	<u>8,079,000</u>	<u>5,070,000</u>
Inventories at end of year	<u>\$13,951,000</u>	<u>\$11,503,000</u>

The revenue of \$8,079,000, together with other revenues of \$597,000, making a total of \$8,676,000 for the year ended March 31, 1961, is recorded in the Public Accounts as revenue of the Department of Finance. Offset against this were expenditures totalling

\$1,435,000 charged to parliamentary appropriations under the Department of Finance as follows: administration, operation and maintenance, \$1,412,000 (\$1,156,000 in 1959-60), and construction or acquisition of equipment, \$23,000 (\$67,000 in 1959-60).

The net result of these charges and credits was an excess of revenue over expenditure of \$7,241,000 compared with \$4,394,000 in 1959-60. Costs not reflected in the accounts include amortization of building and equipment costs, interest on funds employed, etc.

155. *Post Office activities.* The following is a summary of the Post Office transactions reported as departmental revenues and as charges against parliamentary appropriations in the Post Office section of Volume II of the Public Accounts for the year ended March 31, 1961, in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1961	1960
Gross postal revenue	\$ 201,952,000	\$ 193,593,000
Less: Expenses paid from revenue	28,358,000	26,031,000
Net postal revenue	173,594,000	167,562,000
Miscellaneous revenue	52,000	67,000
	<u>173,646,000</u>	<u>167,629,000</u>
Deduct: Expenditure from parliamentary appropriations—		
Operations	111,020,000	101,351,000
Transportation	62,200,000	59,803,000
Administration, financial services, etc.	5,152,000	4,638,000
	<u>178,372,000</u>	<u>165,792,000</u>
Excess of expenditure over revenue	\$ 4,726,000	\$ (1,837,000)

This recorded excess of expenditure over revenue does not, however, take into consideration charges for:

- amortization of building construction costs (the cost of constructing new buildings is borne by appropriations for the Department of Public Works);
- maintenance and operation of buildings (this cost is undertaken as a charge to appropriations for the Department of Public Works);
- amortization of furniture and equipment cost (in lieu of charges presently included for purchases, against either Public Works or Post Office appropriations);
- share of the Government's contributions towards employees' superannuation, etc.;

nor credits for mail franked by and sent to Members of Parliament and government departments.

156. *Public printing and stationery activities.* The Department of Public Printing and Stationery is charged, under the Public Printing and Stationery Act, c. 226, R.S., with the execution of printing, lithographing or work of like nature and the procurement and distribution of paper, books and other articles of stationery required by the Senate, the House of Commons and the various departments. The Department is also responsible for the sale of all books or publications issued by order of either or both Houses of Parliament or by any department.

The basic operating expenses of the Department of Public Printing and Stationery are charged to the Queen's Printer's Advance, as authorized by section 37 of the Act. Credits are made to the Advance, for the value of the printing work executed for and charged (at "factory cost") to the various departments, etc., and for the value of stationery supplied and charged (at purchase cost) to the departments. The aggregate of the charges to the Advance, after deducting therefrom all amounts due to the Queen's Printer, is not permitted by the Act to exceed \$4,000,000. At March 31, 1961 the balance of the Advance was \$5,581,000, while accounts receivable totalled \$3,226,000, giving an effective balance of \$2,355,000.

A balance sheet and an operating statement with respect to the Queen's Printer's Advance were prepared for the year ended March 31, 1961 and appear in the Public Accounts (Volume II, pages 30-6, 7).

The results of the year's operations, as presented in the operating statement, are summarized as follows:

	Printing	Commercial printing, etc.	Stationery, office equipment, etc.	Total
Revenue	\$ 9,860,000	\$ 5,888,000	\$ 2,637,000	\$18,385,000
Expense	9,880,000	5,888,000	2,609,000	18,377,000
	(20,000)		28,000	8,000
Discount earned	5,000		8,000	13,000
Excess of revenue over expense	\$ (15,000)	—	\$ 36,000	\$ 21,000

The value of services and facilities, including light, power, telephone, heating, amortization of buildings and equipment, etc., provided free of charge by other government departments is not reflected in the balance sheet or in the statement of operations and reference to this limitation is made in a footnote to the balance sheet. We have suggested to the Queen's Printer that consideration be given to the inclusion of such charges next year, by means of memorandum entries.

In addition to the expenditure recorded through the Advance, expenses totalling \$3,484,000 were charged to eight different parliamentary appropriations, as follows:

Departmental administration	\$ 717,000
Purchasing, stationery and stores (largely for salaries and wages of procurement and stationery stores personnel, and repairs to office equipment)	1,162,000
Distribution of official documents	459,000
Printing and binding official publications for sale and distribution to departments and the public	649,000
Printing of Canada Gazette	145,000
Printing and binding the annual statutes	38,000
Plant equipment and replacements	273,000
Reimbursement of Queen's Printer's advance account for the value of stores which have become obsolete, unserviceable, lost or destroyed	41,000
	<u>\$ 3,484,000</u>

Credits to Revenue, in addition to the \$21,000 excess of revenue over expenditure on printing operations and stationery transactions which was transferred from the Queen's Printer's Advance in May 1961, amounted to \$1,159,000, most of which resulted from sales of publications.

157. *Airport operations.* At the close of the year under review, the capital investment of the Department of Transport in airports totalled \$479,181,000, of which \$64,955,000 was added during 1960-61.

The following is a summary of the revenues for the year ended March 31, 1961, recorded as departmental revenues, in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1961	1960
Aircraft landing fees:		
Domestic	\$ 2,170,000	\$ 1,804,000
Trans-border	539,000	510,000
Trans-oceanic	2,093,000	2,322,000
Other	19,000	10,000
	<u>4,821,000</u>	<u>4,646,000</u>
Rentals:		
Hangar	222,000	211,000
Living quarters	403,000	398,000
Office, shop and garage space	774,000	612,000
Other	631,000	417,000
	<u>2,030,000</u>	<u>1,638,000</u>
Concessions:		
Gasoline and oil	1,371,000	1,150,000
Other	993,000	697,000
	<u>2,364,000</u>	<u>1,847,000</u>
Miscellaneous revenues	1,873,000	886,000
Total revenues	<u>\$11,088,000</u>	<u>\$ 9,017,000</u>

Charges to the parliamentary appropriation for "Airports and Other Ground Services—Operation and Maintenance" (Votes 444 and 653) totalled \$19,208,000 for the year, compared with \$16,678,000 for the preceding year.

The excess of the expenditure (excluding new construction) on airways and airports over the revenues received, as thus reflected in the Department of Transport section of the Public Accounts, was therefore \$8,120,000 for the year under review, compared with \$7,661,000 for the preceding year. This was without recording charges for amortization of airport construction costs, interest on funds employed or other costs (including portions of expenditure charged to general air services appropriations) which would have to be taken into consideration if it were desired to determine the actual net cost of operating the facilities.

158. In last year's report I expressed the view that in order that Parliament may gain a clear understanding of the true financial results of departmental operating activities, without necessarily disturbing the present basis of providing appropriations, consideration should be given to the inclusion in the Public Accounts of financial statements of the various activities designed to reflect the overall operating results in a clear, concise manner. Such operating statements could be adjusted to the accrual basis and would include charges (on a memorandum basis, in the case of non-cash charges) for amortization of building and equipment costs, interest and funds employed, services provided by other departments, etc. A reconciliation could be prepared between the operating results reflected by each such statement and the cash results indicated by the related credits to departmental revenues and charges to departmental appropriations. Balance sheets could also be prepared which would indicate the value of the assets employed by the several activities at the year-end. I stated that if statements of this type were produced, the Auditor General would be prepared to examine and certify them.

Paragraph 87 of the Fifth Report, 1961, of the Public Accounts Committee reads:

"The Committee feels that it would be desirable, in order that members have a clear understanding of the true financial results of departmental trading or servicing activities, such as those of the Department of Public Printing and Stationery and airport operations of the Department of Transport, were overall financial statements included in the Public Accounts without undue cost or staff increases."

I propose to follow up this matter with the departments concerned and to enquire regarding the plans that they may have for the preparation of financial statements for the year ended March 31, 1962 along the lines proposed.

Special Statutory Audits and Examinations

159. In addition to the examinations of departmental accounts and the audits of the accounts of Crown corporations, already referred to in this report, the following special audits and examinations were made by the Audit Office during the year in accordance with directions contained in various statutes: Army Benevolent Fund, The Canada Council, the Custodian, Exchange Fund Account, National Gallery of Canada, Public Printing and Stationery stores, The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children, Royal Canadian Mint stocks and Yukon Territorial Government accounts.

160. *Army Benevolent Fund.* The accounts of this Fund were examined for the year ended March 31, 1961 pursuant to the requirement of section 11 of the Army Benevolent Fund Act, c. 10, R.S., and the relative report was addressed to the chairman and members of the Army Benevolent Fund Board constituted by the Act, with a copy being provided to the Minister of Veterans Affairs.

During the year under review, receipts amounted to \$221,000, consisting of \$209,000 for interest on the funds on deposit with the Receiver General of Canada and \$12,000 for interest on bonds. The disbursements totalled \$546,000 of which \$477,000 represented

grants to or on behalf of World War II veterans, and \$69,000 was for service and administrative expenses. The latter amount was after making deductions for a grant of \$18,000 provided for by an appropriation of the Department of Veterans Affairs and for a grant of \$25,000 from the Canadian Army Welfare Fund for managing the financial program of that fund.

After absorbing the excess of disbursements over receipts for the year in the amount of \$325,000, the balance at credit of the Fund as at March 31, 1961 was \$6,538,000. To the extent of \$6,277,000, this amount was represented by a balance on deposit with the Receiver General of Canada, the remainder being invested in Government of Canada bonds.

161. *The Canada Council.* The Canada Council was established by the Canada Council Act, c. 3, 1957, "to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences". The Council's office is located in Ottawa. A report on the audit of the Council's accounts for the year ended March 31, 1961 was addressed to the Council and to the Prime Minister, as required by the Act.

An Endowment Fund of \$50 million was established under the Act. With the exception of grants made to universities in respect of building construction projects, expenditures for the purposes of the Act are to be paid out of the return on investments held for the Fund. Permissible expenditures include: grants; scholarships; awards; exhibitions; performance and publication of works; exchanges with other countries; representation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

The following is a summary of the operations of the Endowment Fund for the year ended March 31, 1961, in comparison with the corresponding amounts for the preceding year:

	Year ended March 31	
	1961	1960
Surplus at April 1	\$ 497,000	\$ 570,000
Income—interest and dividends	2,919,000	2,856,000
	<u>3,416,000</u>	<u>3,426,000</u>
Expenditure		
Grants	2,544,000	2,512,000
Special project—The Canada Council Train	33,000	29,000
Canadian National Commission for UNESCO	45,000	34,000
Administrative and other expenses	376,000	354,000
	<u>2,998,000</u>	<u>2,929,000</u>
Surplus at March 31	\$ 418,000	\$ 497,000

The \$11,000 increase in the expenses in connection with the Canadian National Commission for UNESCO was mainly due to expenditures of approximately \$8,000 having been incurred in connection with the Second World Conference on Adult Education.

A University Capital Grants Fund of \$50 million was also established under the Act for the purpose of making grants to universities by way of capital assistance in respect of building construction projects intended for use in furthering the arts, humanities and social sciences. Grants may be paid out of the principal and accumulated income of this Fund.

The following is a summary of the transactions relating to the University Capital Grants Fund during the year ended March 31, 1961:

Balance at April 1, 1960	\$34,598,000
Add:	
Interest earned on investments	\$ 1,871,000
Net profit on disposal of securities	1,241,000
	<u>3,112,000</u>
	37,710,000
Deduct:	
Authorized grants made under section 9 of the Act	3,368,000
	<u>\$34,342,000</u>
Balance at March 31, 1961	

The \$34,342,000 principal of the University Capital Grants Fund at March 31, 1961 included \$9,870,000 in respect of interest earned and profits realized since the inception of the Fund, and allocation of this sum to the provinces and universities is currently awaiting determination by the Council. In its Fifth Report, 1961 (paragraph 92) the Public Accounts Committee recommended that the Council "seek to conclude this matter without further delay".

162. *The Custodian.* Under the Trading with the Enemy (Transitional Powers) Act, c. 24, 1947, the Secretary of State is the Custodian "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him" under or by virtue of the Revised Regulations respecting Trading with the Enemy (1943), which are set out in a schedule to the Act. The Under-Secretary of State acts as Deputy Custodian and the Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. A report on the audit of the Custodian's accounts for his financial year ended December 31, 1960 was addressed to the Secretary of State.

The Custodian had a residue of property still under his control to a total of \$4,668,000 at December 31, 1960.

The Regulations referred to above permit the Custodian to charge "a fee for services rendered not exceeding 2% of the value of the property including the income therefrom" to meet his administrative expenses, and this has resulted in a surplus of

\$4,269,000 having accumulated in the Custodian's accounts from September 2, 1939 to December 31, 1960. The following is a comparative summary of the income and expense of the Custodian for his past two financial years:

	Year ended December 31	
	1960	1959
Income		
Fees on assets released from administration	\$ 3,000	\$ 13,000
Interest on investments and bank deposits	177,000	176,000
Other income	3,000	6,000
	<u>183,000</u>	<u>195,000</u>
Expense		
Salaries	123,000	124,000
Other expenses	23,000	33,000
	<u>146,000</u>	<u>157,000</u>
Surplus for year	<u>\$ 37,000</u>	<u>\$ 38,000</u>

A move to smaller and less expensive offices during the year ended December 31, 1960 resulted in a reduction of rental charges for the year by over \$9,000 and was the main reason for the reduction of the "other expenses" to \$23,000 from \$33,000 in the preceding year, as shown in the above table. This reduction was achieved in spite of a "non-productive" payment which arose as a result of the move having been made on January 18, 1960 while rental, to the extent of \$6,287, continued to be paid under the lease of the former premises, to April 30, 1960.

163. *Exchange Fund Account.* The Exchange Fund Account was first established by the Exchange Fund Act, c.60, 1935. It was continued by the Foreign Exchange Control Act, c. 53, 1946, and further continued by the Currency, Mint and Exchange Fund Act, c. 315, R.S. The purpose of the Exchange Fund Account, from its inception, has been "to aid in the control and protection of the external value of the Canadian monetary unit".

The accounts of the Exchange Fund for its financial year ended December 31, 1960 were examined pursuant to the requirement of section 27 of the Currency, Mint and Exchange Fund Act, and the relative report was addressed to the Minister of Finance in accordance with established practice. The section requires that a special certificate be given annually to Parliament and, in accordance with that requirement, it is now certified that the transactions in connection with the Account for the year ended December 31, 1960 have been in accordance with the provisions of the Act, and that the records showed truly and clearly the state of the Account at the year-end.

A financial statement giving a summary of the transactions of the Account for the financial year ended December 31, 1960, and showing the composition of the balance at that date is given in the Public Accounts (Volume II, pages 11-20, 21).

The following is a summary of the transactions in the Account for the year ended December 31, 1960 compared with the transactions in the previous financial year:

	Year ended December 31	
	1960	1959
Balance at January 1	\$ 1,969,513,000	\$ 2,010,125,000
Deduct:		
Paid into Consolidated Revenue Fund in respect of earnings	25,513,000	18,625,000
Repayment of advances (net)	47,000,000	47,500,000
	<u>72,513,000</u>	<u>66,125,000</u>
	1,897,000,000	1,944,000,000
Add:		
Earnings on investments for the year (to be paid into Consolidated Revenue Fund)	32,536,000	25,513,000
Balance at December 31	<u>\$ 1,929,536,000</u>	<u>\$ 1,969,513,000</u>
Represented by:		
Canadian dollars	\$ 382,000	\$ 25,000
United States securities	905,919,000	831,815,000
Gold	882,258,000	913,677,000
	<u>1,788,559,000</u>	<u>1,745,517,000</u>
Deficit	140,977,000	223,996,000
	<u>\$ 1,929,536,000</u>	<u>\$ 1,969,513,000</u>

The deficit of \$140,977,000 at December 31, 1960 comprises (a) net loss on dealings in gold and foreign currencies and securities and on revaluations of gold and foreign currencies since the establishment of the Exchange Fund Account in 1935, and (b) exchange loss arising from valuation of United States dollar and gold holdings at the exchange rate of \$0.99 21/32 Can. = \$1.00 U.S. at that date (see also paragraph 111).

164. *National Gallery of Canada.* The National Gallery of Canada was established under the National Gallery of Canada Act, c.33, 1913, which was superseded by the National Gallery Act, c.16, 1951 (2nd Session), now c.186, R.S. Among its objects and powers are the development, maintenance, care and management of the National Gallery at Ottawa, the acquisition of works of art and the promotion, through exhibition or otherwise, of the interests generally of art in Canada. A report on the audit of the Gallery's accounts for the year ended March 31, 1961 was addressed to the Minister of Citizenship and Immigration.

The operating expenses of the Gallery are largely met from annual parliamentary appropriations, with the remainder being met out of a special operating account to which are credited revenues received from sales, fees, donations or other sources. Funds for the acquisition of works of art are provided through the National Gallery Purchase Account to which are credited moneys appropriated by Parliament for that purpose.

The following is a comparative summary of the expenditures for the past two fiscal years, excluding expenditures applicable to the National Industrial Design Council, supervision and control of which was transferred to the Department of Trade and Commerce during the year under review:

	Year ended March 31	
	1961	1960
Administration, operating and maintenance		
Salaries and wages	\$ 322,000	\$ 254,000
Professional and special services	162,000	91,000
Other	298,000	306,000
	782,000	651,000
Purchases of works of art	148,000	27,000
Outlays from trust funds	2,000	1,000
	<u>\$ 932,000</u>	<u>\$ 679,000</u>

The increases in salaries and wages and in professional and special services during the year were mainly due to increased staff and expanded protective services resulting from the Gallery's first full year of operation in the Lorne Building.

In a detailed report addressed to the Board of Trustees on the audit of the accounts for the year ended March 31, 1961, attention was drawn to certain weaknesses in the system of internal control. Most of the matters dealt with had been commented on in the previous year but had only been partially remedied. At the year-end a survey of administrative services was being undertaken for the Gallery by the Management Analysis Division of the Civil Service Commission.

165. *Public Printing and Stationery stores.* Section 34 of the Public Printing and Stationery Act, c.226, R.S., requires the Auditor General to "annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied". During the year under review, such tests were made as were considered necessary to establish that the controls exercised by the Department with respect to stores were operating satisfactorily. In addition, we participated in the annual physical stocktaking made by departmental personnel. A report on the examination was addressed to the Secretary of State.

The inventories of stationery, printing materials and supplies held by the Department at March 31, 1961 amounted to \$2,689,000, and compared with the inventories at the close of the previous year as follows:

	As at March 31	
	1961	1960
Stationery supplies	\$ 747,000	\$ 711,000
Typewriter and office machine parts	152,000	109,000
Miscellaneous items (on charge to the Stationery branch)	31,000	29,000
Work in process	467,000	333,000
Paper	397,000	470,000
Printing and maintenance supplies	488,000	513,000
Field unit stock	361,000	343,000
Miscellaneous items (on charge to the Printing branch)	46,000	63,000
	<u>\$ 2,689,000</u>	<u>\$ 2,571,000</u>

166. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* This Fund was established by the Queen Elizabeth II Canadian Research Fund Act, c.33, 1959. Its purposes are to assist individuals or organizations in undertaking or carrying on research into the diseases of children, and the causes, prevention and treatment of such diseases. The administration of the Fund is the responsibility of a board of trustees consisting of a chairman and six other trustees. The head office of the board is at Ottawa and the Act requires the National Research Council to provide, without charge, such secretarial and other administrative and technical services and facilities as may be required. A report on the audit of the Fund's accounts for the year ended March 31, 1961 was addressed to the board and to the Prime Minister as required by the Act.

The Act appropriated \$1,000,000 for the Fund and permits the board to accept gifts for its purposes. The balance at the credit of the Fund, which was \$988,000 at the beginning of the year under review, increased by \$70,000 to \$1,058,000 at March 31, 1961, as a result of the transactions summarized below:

Interest on investments	\$	48,000
Net profit on sales of securities		72,000
		<hr/> 120,000
Deduct:		
Awards approved during the year	\$	59,000
Less: Cancellation of awards approved in preceding year		9,000
		<hr/> 50,000
Increase during the year	\$	<hr/> <hr/> 70,000

The board of trustees has approved of two categories of assistance, namely, Queen Elizabeth II Fellowships and Queen Elizabeth II Scientists. The first category includes fellowship awards in amounts ranging from \$3,500 to \$5,000 per annum to doctors of medicine or of "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of children. The second category covers the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the board of trustees with regard to this category provide for payments of \$10,000 per annum for each of the first three years and \$5,000 annually for the following three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without recourse to the Fund. During the year under review the board of trustees approved its first appointment in this category—a scientist to establish a research unit in the field of pediatrics at a Canadian university. Provision for the \$45,000 which it is expected will ultimately be expended as a result of this appointment has been made in the Fund's accounts, and largely accounts for the \$59,000 shown for awards approved during the year.

167. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenues and expenditures accordingly form part of

the departmental revenues and expenditures and are examined as such. However, section 20 of the Currency, Mint and Exchange Fund Act, c.315, R.S., requires that the Auditor General shall "at least once in each year inspect the store of bullion and coin at the Mint". Such an inspection was made during the year under review and a report thereon was made to the Deputy Minister of Finance.

The stocks of bullion and metals at cost, and coin at face value, held by the Mint at March 31, 1961 amounted to \$13,951,000, comprising: gold, \$7,061,000; silver, \$6,726,000; nickel, \$55,000; and bronze, \$109,000.

168. *Yukon Territorial Government accounts.* The Yukon Act, c. 53, 1952-53, as amended, makes provision for appointment of a chief executive officer to be known as the Commissioner of the Yukon Territory, to administer the government of the Territory under instructions from time to time given him by the Governor in Council or the Minister of Northern Affairs and National Resources. The Act also provides for a Council of the Yukon Territory, composed of seven elected members, which meets annually. Three members of the Council, appointed by the Commissioner upon the recommendation of the Council, constitute an Advisory Committee on Finance with which the Commissioner is required to consult in the preparation of the estimates of the expenditures, and of the appropriations required to defray the charges and expenses of the public service of the Territory for each fiscal year.

Section 16 of the Act enables the Commissioner in Council to make ordinances for the government of the Territory in the fields normally coming within provincial jurisdiction, subject to the limitation contained in section 17 of the Act that the powers granted shall not exceed those given to provincial legislatures in like matters by the British North America Act.

A report on the examination of the accounts of the Yukon Territorial Government for the fiscal year ended March 31, 1961 has been addressed to the Commissioner in Council, with a copy being forwarded to the Minister of Northern Affairs and National Resources, in accordance with established practice.

The following is a summary of the expenditure and revenue of the Yukon Territorial Government for the year ended March 31, 1961, compared with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1961	1960
Expenditure		
Education	\$ 722,000	\$ 632,000
Health and welfare	552,000	343,000
Roads, bridges and public works	312,000	328,000
Municipal and town administration	219,000	206,000
Capital projects	791,000	902,000
Other expenditure	394,000	260,000
	<hr/> 2,990,000	<hr/> 2,671,000

	Year ended March 31	
	1961	1960
Revenue		
Liquor profits	861,000	808,000
Tax revenue	592,000	535,000
Federal subsidies and grants	475,000	458,000
School attendance fees	218,000	194,000
Licence revenue	195,000	171,000
Other revenue	230,000	290,000
	<u>2,571,000</u>	<u>2,456,000</u>
Excess of expenditure over revenue	<u>\$ 419,000</u>	<u>\$ 215,000</u>

Loans payable to the Government of Canada at March 31, 1961 totalled \$2,190,000, a decrease of \$91,000 in the year, resulting from partial repayment of funds borrowed for the Whitehorse sewer and water project and the Whitehorse Regional Hospital.

The Audit Office

It will be noted from Appendix 6 that 141 employees were authorized for the Audit Office for the fiscal year 1960-61 compared with 142 for the preceding year. Actual staff strength during 1960-61 averaged 134 compared with 137 during the preceding year.

The establishment approved for the fiscal year 1961-62 totalled 159, an increase of 18 over the previous year. Actual staff strength during the first seven months of this fiscal year has averaged 147 with the staff at October 31, 1961 totalling 152.

After estimating my staff establishment needs for 1962-63 I informed the Treasury Board that, in my opinion, at least 20 additional staff members are needed to bring the Audit Office staff up to the minimum strength necessary to carry out a basic external audit program within the framework of existing government organization. This has been approved by the Treasury Board, thereby bringing the establishment approved for the Audit Office up to 179, effective April 1, 1962.

* * * * *

I would like to record my appreciation to all members of the staff of the Audit Office for their loyalty and devotion to duty during the past year.

A. M. HENDERSON,
Auditor General of Canada.

November 15, 1961.

APPENDICES

Statement of Expenditure and Revenue for the Fiscal Year ended March 31, 1961	Appendix 1
Statement of Assets and Liabilities as at March 31, 1961	Appendix 2
Summary of Appropriations, Expenditure and Unexpended Balances, by Departments, for the year ended March 31, 1961	Appendix 3
Summary of Revenue, by Main Classifications and Departments, for the year ended March 31, 1961	Appendix 4
Summary of Expenditure, by Standard Objects, for the year ended March 31, 1961	Appendix 5
Summary of Employees authorized for the Public Service, by Departments, Crown Corporations, and Other Instrumentalities—March 1961 in comparison with March 1960	Appendix 6

THE GOVERNMENT

STATEMENT OF EXPENDITURE AND REVENUE FOR

(with comparable figures for

EXPENDITURE

	Fiscal year ended	
	March 31, 1961	March 31, 1960
Agriculture.....	\$ 264,915,215	\$ 227,420,395
Atomic Energy.....	38,892,905	30,114,125
Auditor General's Office.....	928,573	866,879
Board of Broadcast Governors.....	280,946	218,652
Canadian Broadcasting Corporation.....	66,766,203	63,945,994
Chief Electoral Officer.....	591,780	259,590
Citizenship and Immigration.....	61,049,383	54,916,725
Civil Service Commission.....	4,220,006	3,654,664
Defence Production.....	20,435,693	17,600,214
External Affairs.....	103,023,405	97,220,924
Finance—		
Public debt charges.....	797,602,265	783,462,191
Tax-sharing, subsidy and other payments to provinces.....	537,814,873	518,900,813
Other expenditure.....	124,609,972	117,792,124
	1,460,027,110	1,420,155,128
Fisheries.....	19,195,681	19,880,914
Forestry.....	10,060,199	9,890,589
Governor General and Lieutenant-Governors.....	436,926	421,083
Insurance.....	1,309,674	1,237,533
Justice.....	27,694,612	27,845,868
Labour.....	121,336,329	102,885,123
Legislation.....	8,506,699	7,669,237
Mines and Technical Surveys.....	59,120,367	54,432,381
National Defence—		
Royal Canadian Navy.....	245,478,753	255,835,374
Canadian Army.....	402,262,470	400,818,599
Royal Canadian Air Force.....	751,598,647	728,442,093
Defence research and development.....	41,925,038	39,183,489
Other expenditure.....	76,265,675	92,292,899
	1,517,530,583	1,516,572,454
National Film Board.....	4,866,930	4,555,417
National Gallery.....	920,828	666,814
National Health and Welfare—		
Family allowances.....	506,191,647	491,214,359
Other expenditure.....	380,955,343	325,488,431
	887,146,990	816,702,790
National Research Council.....	34,438,422	31,501,387
National Revenue.....	73,260,720	68,696,069
Northern Affairs and National Resources.....	74,295,902	74,346,187
Post Office.....	178,371,717	165,792,340
Privy Council.....	1,850,166	1,417,903
Public Archives and National Library.....	842,304	745,329
Public Printing and Stationery.....	3,483,938	3,466,734
Public Works.....	200,891,585	217,876,413
Royal Canadian Mounted Police.....	56,023,194	52,444,264
Secretary of State.....	4,877,799	4,655,356
Trade and Commerce.....	21,763,612	18,033,719
Transport.....	336,446,853	296,446,971
Veterans Affairs—		
Pensions.....	150,694,547	149,656,053
Other expenditure.....	141,603,150	138,648,826
	292,297,697	288,304,879
Total expenditure.....	5,958,100,946	5,702,861,053
Budgetary deficit.....	—340,421,092	—413,109,844
	5,617,679,854	5,289,751,209

H. R. BALLS,
Comptroller of the Treasury.

K. W. TAYLOR,
Deputy Minister of Finance.

APPENDIX 1

(Auditor General's Report)

OF CANADA

THE FISCAL YEAR ENDED MARCH 31, 1961

the preceding fiscal year)

REVENUE

	Fiscal year ended	
	March 31, 1961	March 31, 1960
Tax revenues—		
Income tax—		
Personal ⁽¹⁾	\$1,711,159,573	\$1,566,643,704
Corporation ⁽¹⁾	1,276,628,380	1,142,879,702
On dividends, interest, etc., going abroad.....	88,173,822	73,353,360
Excise taxes—		
Sales tax ⁽¹⁾	720,617,274	732,658,330
Other.....	290,658,192	287,423,878
Customs duties.....	498,698,211	525,722,158
Excise duties.....	344,944,857	335,207,406
Estate tax ⁽²⁾	84,879,372	88,430,705
Miscellaneous.....	16,905	20,695
	<u>5,015,776,586</u>	<u>4,752,539,938</u>
Non-tax revenues—		
Return on investments.....	283,769,277	239,653,687
Post Office—net postal revenue.....	173,593,541	167,562,354
Refunds of previous years' expenditure.....	40,544,154	40,630,026
Services and service fees.....	35,671,632	31,298,623
Proceeds from sales.....	23,980,752	21,891,546
Privileges, licences and permits.....	27,205,888	24,969,835
Bullion and coinage.....	8,445,677	5,429,778
Premium, discount and exchange.....	873,203	
Miscellaneous.....	7,819,144	5,975,422
	<u>601,903,268</u>	<u>537,411,271</u>

⁽¹⁾ Excluding tax credited to the old age security fund—

	1960-61	1959-60
Personal income tax...	229,400,000	185,550,000
Corporation income tax	103,500,000	91,336,000
Sales tax.....	270,231,478	270,000,055

⁽²⁾ Includes Succession Duties.

Total revenue.....	5,617,679,854	5,289,751,209
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Auditor General's Certificate

The above statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations that I have required, and I certify that the statement is in agreement with the accounts maintained by the Department of Finance, and is, in my opinion, correct, subject to the comments in my report to the House of Commons.

A. M. HENDERSON,
Auditor General.

THE GOVERNMENT
STATEMENT OF ASSETS AND
(with comparable figures)

ASSETS

	March 31, 1961	March 31, 1960	Net increase or decrease (—) during 1960-61
1. Current assets—			
(a) Cash, schedule A.....	\$ 486,759,770	\$ 565,436,461	\$ -78,676,691
(b) Departmental working capital advances and revolving funds, schedule B.....	171,082,579	196,010,004	-24,927,425
(c) Securities held for the securities investment account at amortized cost.....	101,453,744	77,862,926	23,590,818
(d) Other current assets, schedule C.....	25,051,644	22,837,203	2,214,441
	784,347,737	862,146,594	-77,798,857
2. Advances to the exchange fund account (value of investments from advances on basis of closing exchange rates: March 31, 1961, \$1,869,957,821; March 31, 1960, \$1,746,305,383).....	2,024,000,000	1,960,000,000	64,000,000
3. Sinking fund and other investments held for retirement of unmatured debt, schedule D.....	17,017,981	85,272,230	-68,254,249
4. Loans to, and investments in, Crown corporations, schedule E.....	3,627,733,196	3,446,661,546	181,071,650
5. Loans to national governments, schedule F.....	1,378,196,197	1,414,527,922	-36,331,725
6. Other loans and investments, schedule G—			
(a) Subscriptions to capital of, and working capital advances and loans to, international organizations.....	631,126,992	605,174,878	25,952,114
(b) Loans to provincial governments.....	84,827,019	90,396,788	-5,569,769
(c) Veterans land act advances (less reserve for conditional benefits).....	166,092,206	151,626,032	14,466,174
(d) Miscellaneous.....	140,059,590	87,273,714	52,785,876
	1,022,105,807	934,471,412	87,634,395
7. Securities held in trust, schedule H.....	30,042,201	30,611,723	-569,522
8. Deferred charges—			
(a) Unamortized portion of actuarial deficiencies—			
Canadian forces superannuation account.....	326,300,000	326,300,000
Public service superannuation account.....	276,661,000	139,000,000	137,661,000
(b) Unamortized loan flotation costs, appendix No. 7.....	130,741,328	150,993,027	-20,251,699
	733,702,328	616,293,027	117,409,301
9. Suspense accounts, schedule I.....	136,101	33,300	102,801
10. Capital assets.....	1	1
11. Inactive loans and investments, schedule J.....	94,824,381	93,539,317	1,285,064
TOTAL ASSETS.....	9,712,105,930	9,443,557,072	268,548,858
12. Less: Reserve for losses on realization of assets.....	-546,384,065	-546,384,065
NET ASSETS.....	9,165,721,865	8,897,173,007	268,548,858
13. Net debt, represented by excess of liabilities over assets, schedule K.....	12,437,115,095	12,089,194,003	347,921,092
	21,602,836,960	20,986,367,010	616,469,950

The notes appearing on page 100 are an integral part of this Statement of Assets and Liabilities.

H. R. BALLS,
Comptroller of the Treasury.

K. W. TAYLOR,
Deputy Minister of Finance.

(The schedules and the appendix referred to in the above Statement, and the page referred to in the footnote, are to be found in the Public Accounts, Volume I)

APPENDIX 2

(Auditor General's Report)

OF CANADA

LIABILITIES AS AT MARCH 31, 1961

as at March 31, 1960)

LIABILITIES

	March 31, 1961	March 31, 1960	Net increase or decrease (—) during 1960-61
14. Current and demand liabilities, schedule L—			
(a) Outstanding treasury cheques	\$ 251,740,839	\$ 228,768,468	\$ 22,972,371
(b) Accounts payable (that portion paid in April of the next following fiscal year)	221,396,476	245,099,099	-23,702,623
(c) Non-interest bearing notes payable to the international monetary fund, the international bank for reconstruc- tion and development, and the international develop- ment association	383,660,444	381,828,500	1,831,944
(d) Matured debt outstanding	31,872,131	20,067,997	11,804,134
(e) Interest due and outstanding	66,776,824	57,690,734	9,086,090
(f) Interest accrued	154,015,640	137,622,473	16,393,167
(g) Other current liabilities	38,098,891	27,979,624	10,119,267
	1,147,561,245	1,099,056,895	48,504,350
15. Deposit and trust accounts, schedule M	239,667,315	242,673,334	-3,006,019
16. Annuity, insurance and pension accounts, schedule N	3,955,509,445	3,565,375,649	390,133,796
17. Undisbursed balances of appropriations to special accounts, schedule O	104,492,701	96,619,964	7,872,737
18. Deferred credits, schedule P	79,073,348	83,961,190	-4,887,842
19. Suspense accounts, schedule Q	8,617,992	8,528,175	89,817
20. Unmatured debt, schedule R—			
(a) Bonds	14,132,914,914	13,765,151,803	367,763,111
(b) Treasury bills	1,935,000,000	2,125,000,000	-190,000,000
	16,067,914,914	15,890,151,803	177,763,111

TOTAL LIABILITIES	21,602,836,960	20,986,367,010	616,469,950
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Auditor General's Certificate

The above statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations that I have required, and I certify that the statement is in agreement with the accounts maintained by the Department of Finance, and is, in my opinion, correct, subject to the comments in my report to the House of Commons.

A. M. HENDERSON,
Auditor General.

APPENDIX 3

(Auditor General's Report)

SUMMARY OF APPROPRIATIONS, EXPENDITURE AND UNEXPENDED BALANCES BY DEPARTMENTS FOR THE YEAR ENDED MARCH 31, 1961

Section	Department	Appropriations	Expenditure	Unexpended Balances	
				Lapsed	Carried forward ⁽¹⁾
		\$	\$	\$	\$
1	Agriculture.....	293,742,764	264,915,215	28,827,549	
2	Atomic Energy.....	41,657,460	38,892,905	2,764,555	
3	Auditor General's Office.....	950,860	928,573	22,287	
4	Board of Broadcast Governors.....	298,420	280,946	17,474	
5	Canadian Broadcasting Corporation.....	71,739,400	66,766,203	4,973,197	
6	Office of the Chief Electoral Officer.....	603,423	591,780	11,643	
7	Citizenship and Immigration.....	62,654,917	61,049,383	1,605,534	
8	Civil Service Commission.....	4,276,281	4,220,006	56,275	
9	Defence Production.....	25,037,888	20,435,693	4,602,195	
10	External Affairs.....	105,732,092	103,023,405	2,708,687	
11	Finance.....	1,470,962,443	1,460,027,110	10,935,333	
12	Fisheries.....	21,291,399	19,195,681	2,095,718	
13	Forestry.....	10,663,184	10,060,199	602,985	
14	Governor General and Lieutenant-Governors.....	452,123	436,926	15,197	
15	Insurance.....	1,324,047	1,309,674	14,373	
16	Justice.....	8,850,638	8,643,471	207,167	
16	Office of the Commissioner of Penitentiaries.....	19,592,552	19,051,141	541,411	
17	Labour.....	158,872,670	121,336,329	8,399,717	29,136,624
18	Legislation.....	8,557,772	8,506,699	51,073	
19	Mines and Technical Surveys.....	64,766,935	59,120,367	5,646,568	
20	National Defence.....	1,605,924,933	1,517,530,583	88,394,350	
21	National Film Board.....	4,873,234	4,866,930	6,304	
22	National Gallery of Canada.....	1,023,725	920,828	102,897	
23	National Health and Welfare.....	891,527,961	887,146,990	4,380,971	
24	National Research Council.....	34,485,388	34,438,422	46,966	
25	National Revenue.....	75,982,651	73,260,720	2,721,931	
26	Northern Affairs and National Resources.....	81,826,821	74,295,902	7,530,919	
27	Post Office.....	181,875,872	178,371,717	3,504,155	
28	Privy Council.....	2,082,388	1,850,166	232,222	
29	Public Archives and National Library.....	870,362	842,304	28,058	
30	Public Printing and Stationery.....	3,539,048	3,483,938	55,110	
31	Public Works.....	216,063,041	200,891,585	15,171,456	
32	Royal Canadian Mounted Police.....	57,371,419	56,023,194	1,348,225	
33	Secretary of State.....	5,073,638	4,877,799	195,839	
34	Trade and Commerce.....	23,000,675	21,763,612	1,237,063	
35	Transport.....	344,526,546	328,949,809	15,576,737	
35	Canadian Maritime Commission.....	7,018,203	6,921,390	96,813	
35	National Harbours Board.....	2,580,299	575,654	2,004,645	
36	Veterans Affairs.....	300,634,877	292,297,697	8,337,180	
		6,212,308,349	5,958,100,946	225,070,779	29,136,624

⁽¹⁾ Available for expenditure in 1961-62.

H. R. BALLS,
Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the expenditures which are included in the above statement have been examined under my direction and, subject to the comments in my report to the House of Commons, made in accordance with the provisions of the Financial Administration Act, I certify that, in my opinion, the statement is correct.

A. M. HENDERSON,
Auditor General.

(The sections referred to in the above Summary are those in the Public Accounts, Volume II.)

SUMMARY OF REVENUE BY MAIN CLASSIFICATIONS AND DEPARTMENTS FOR THE YEAR ENDED MARCH 31, 1961

Section	Department	Tax revenue	Return on investments	Bullion and coinage	Premium, discount and exchange	Postal revenue	Privileges, licences and permits	Proceeds from sales	Services and service fees	Refunds of previous years' expenditure	Miscel- laneous	Total
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1	Agriculture.....		16,398				1,084,772	1,048,314	6,042,781	51,517	42,487	8,286,269
2	Atomic Energy.....		217,389									217,389
3	Auditor General's Office.....								6,330	13	9	6,352
5	Canadian Broadcasting Corporation.....						40,100	297		4,246,990		4,287,387
6	Office of the Chief Electoral Officer.....						758,766	37,069	69,721	275,954	800	1,232,713
7	Citizenship and Immigration.....		29,315							439		29,717
8	Civil Service Commission.....											
9	Defence Production.....											
10	External Affairs.....		3,980,323				182,690	11,834,406	218,015	43,285	7,833	16,286,552
11	Finance.....		1,507,369				787,505	16,934	10,577	84,911	21,834	2,429,130
12	Fisheries.....		189,333,504	8,445,677	873,203			46	263,638	3,776,885	401,517	203,091,470
13	Forestry.....		284,118				111,150	147,485	50,283	34,887	45,728	673,661
15	Insurance.....	16,414					89,993	15,992	3,244	3,989	108	113,326
16	Justice.....						7,762	4,958	650,845		53	667,317
17	Office of the Commissioner of Penitentiaries.....		1,585				53,041	1,127,050	11,505	739	393,845	418,909
18	Labour.....		2,415					1,813	2,582	18,070	3,776	1,203,522
19	Legislation.....						99,241		79,586			839,319
20	Mines and Technical Surveys.....						21,888	222,639	2,800	8	29,003	131,052
21	National Defence.....		305,430					5,120	25,076			1,328,225
22	National Film Board.....		460,893				1,596,007	1,128,466	1,592,710	21,836,601	1,207,882	27,822,559
23	National Gallery of Canada.....									24,448		24,448
24	National Health and Welfare.....									2,782		2,782
25	National Research Council.....		332				17,365	427,570	3,117,486	583,519	43,400	4,189,430
26	Northern Affairs and National Resources.....	5,015,759,681	2,285				210,934	31,070	312,969	23,913	646	24,891
27	Post Office.....	491	198,204				4,255,225	396,200	428,342	4,824	1,653,304	5,017,995,067
28	Privy Council.....					173,593,541		24,389		330,688	136,070	5,745,220
29	Public Archives and National Gallery.....		157							12,522	15,206	173,615,658
30	Public Printing and Stationery.....		21,629							158	5,009	5,167
31	Public Works.....		50,575,878							223		4,084
32	Royal Canadian Mounted Police.....		12,709				1,499,725	5,569,950	453,866	10,092	28,582	1,180,814
33	Secretary of State.....						678,756	332,891	10,376,643	1,723,775	832,519	69,665,713
34	Trade and Commerce.....						2,391,571		334,817	158,550	104,676	11,721,225
35	Transport.....		9,235,367				21,673	2,123	1,976,634	1	161	2,726,550
36	Veterans Affairs.....		13,269,725				13,255,363	404,511	11,377	938,829	838,829	12,186,003
			5,314,252				42,361	15,038	9,737,020	5,470,394	109,908	42,246,021
		5,015,776,586	283,769,277	8,445,677	873,203	173,593,541	27,205,888	23,980,752	35,671,632	40,514,154	232,793	7,303,312
												5,617,679,854

H. R. BALIS,

Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the revenues which are included in the above statement have been examined under my direction and, subject to the comments in my report to the House of Commons, made in accordance with the provisions of the Financial Administration Act, I certify that, in my opinion, the statement is correct.

A. M. HENDERSON,

Auditor General.

(The sections referred to in the above Summary are those in the Public Accounts, Volume II)

APPENDIX 5

(Auditor General's Report)

SUMMARY OF EXPENDITURE BY STANDARD OBJECTS

FOR THE YEAR ENDED MARCH 31, 1961

(with comparable figures for the preceding fiscal year)

(in millions of dollars)

	1960-61	1959-60	Increase or decrease (—)
Civil salaries and wages.....	\$782.2	\$710.4	\$71.8
Civilian allowances.....	13.9	14.1	— .2
Pay and allowances, defence forces and R.C.M. Police.....	523.2	498.1	25.1
Professional and special services.....	83.9	89.0	— 5.1
Travelling and removal expenses.....	62.1	62.1	.0
Freight, express and cartage.....	11.6	12.6	— 1.0
Postage.....	6.0	5.7	.3
Telephones, telegrams and other communication services.....	18.8	17.5	1.3
Publication of departmental reports and other material.....	8.6	8.6	.0
Exhibits, advertising, films, broadcasting and displays.....	12.1	11.8	.3
Office stationery, supplies, equipment and furnishings.....	21.8	22.2	— .4
Materials and supplies.....	163.6	162.5	1.1
Buildings and works, including land—			
Construction or acquisition.....	312.2	344.6	—32.4
Repairs and upkeep.....	56.5	49.8	6.7
Rentals.....	15.8	15.9	— .1
Equipment—			
Construction or acquisition.....	325.0	335.9	—10.9
Repairs and upkeep.....	154.5	162.5	— 8.0
Rentals.....	5.9	5.1	.8
Municipal or public utility services.....	53.5	48.5	5.0
Contributions, grants, subsidies, etc. not included elsewhere.....	527.6	479.6	48.0
Pensions, superannuation and other benefits.....	113.1	109.7	3.4
All other expenditures (other than special categories).....	70.0	66.9	3.1
Interest on public debt, etc.....	797.6	783.5	14.1
Subsidies and special payments to the Provinces.....	537.8	518.9	18.9
Family allowances payments.....	506.2	491.2	15.0
Old age assistance, blind persons and disabled persons allowances and unemployment assistance.....	102.7	90.8	11.9
Veterans' disability pensions, etc.....	150.7	149.7	1.0
Other payments to veterans and dependents.....	71.2	70.2	1.0
Government's contribution to the Unemployment Insurance Fund.....	55.1	45.7	9.4
Hospital insurance and general health grants.....	237.4	196.6	40.8
Trans-Canada Highway contributions.....	48.7	53.3	— 4.6
Movement of mail by land, air and water.....	61.7	59.3	2.4
Deficits—Government-owned enterprises.....	78.3	52.1	26.2
	\$5,989.3	\$5,744.4	\$244.9
Less: Expenditure recovered.....	31.2	41.5	—10.3
Net Total Expenditure.....	\$5,958.1	\$5,702.9	\$255.2

APPENDIX 6

(Auditor General's Report)

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE BY DEPARTMENTS, CROWN CORPORATIONS, AND OTHER INSTRUMENTALITIES

March 1961 in comparison with March 1960

	Employees Authorized		Increase (Decrease)
	March 1961	March 1960	
DEPARTMENTS (Note 2)—			
Agriculture—			
Administration*	398	373	25
Research*	4,694	4,629	65
Production and marketing*	3,332	3,260	72
Special*	1,300	975	325
	9,724	9,237	487
Atomic Energy Control Board	8	8	—
Auditor General's Office	141	142	(1)
Board of Broadcast Governors	31	21	10
Chief Electoral Officer	16	16	—
Citizenship and Immigration—			
Administration	176	172	4
Citizenship	211	205	6
Immigration*	2,138	2,145	(7)
Indian Affairs*	2,347	2,180	167
	4,872	4,702	170
Civil Service Commission*	692	697	(5)
Defence Production	1,531	1,509	72
External Affairs—			
Administration	786	782	4
Representation abroad	1,216	1,176	40
International Joint Commission	12	15	(3)
Other international commissions	16	16	—
	2,030	1,989	41
Finance—			
Departmental administration	479	504	(25)
Comptroller of the Treasury*	4,501	4,403	98
Administration of various Acts	429	389	40
Tariff Board	28	27	1
	5,437	5,323	114
Fisheries—			
Administration and general services*	199	195	4
Field services*	1,438	1,410	28
Special*	830	828	2
	2,467	2,433	34
Governor General and Lieutenant-Governors*	15	14	1
Insurance*	110	110	—
Justice—			
Department	402	372	30
Penitentiaries*	2,630	2,411	219
	3,032	2,783	249

* Includes seasonal, part-time and/or sessional employees.

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—Continued

	Employees Authorized		Increase (Decrease)
	March 1961	March 1960	
DEPARTMENTS (Continued)			
Labour—			
Department*.....	626	642	(16)
Unemployment Insurance Commission.....	8,632	8,423	209
	9,258	9,065	193
Legislation—			
Senate*.....	168	167	1
House of Commons*.....	727	709	18
Library of Parliament*.....	55	55	—
	950	931	19
Mines and Technical Surveys—			
Administration*.....	231	214	17
Surveys and Mapping Branch*.....	2,071	1,990	81
Geological Survey*.....	672	614	58
Mines Branch*.....	674	653	21
International Boundary Commission*.....	29	29	—
Dominion Coal Board.....	20	21	(1)
Other*.....	310	279	31
	4,007	3,800	207
National Defence (Civilian Staffs)—			
Departmental administration.....	670	693	(23)
Inspection services.....	1,409	1,563	(154)
Royal Canadian Navy.....	11,973	11,973	—
Canadian Army.....	18,417	19,334	(917)
Royal Canadian Air Force.....	14,022	14,442	(420)
Defence research and development.....	2,926	2,926	—
	49,417	50,931	(1,514)
National Gallery*.....	75	68	7
National Health and Welfare—			
Departmental administration.....	360	364	(4)
National Health Branch*.....	3,741	3,672	69
Welfare Branch.....	906	907	(1)
General.....	159	199	(40)
	5,166	5,142	24
National Research Council.....	2,590	2,511	79
National Revenue—			
Customs and Excise Divisions*.....	8,453	8,552	(99)
Taxation Division*.....	8,034	8,126	(92)
Tax Appeal Board.....	17	17	—
	16,504	16,695	(191)
Northern Affairs and National Resources—			
Departmental administration*.....	197	184	13
National Parks Branch*.....	147	133	14
National parks and historic sites*.....	2,323	2,268	55
Water Resources Branch*.....	248	238	10
Northern Administration Branch*.....	666	592	74
Yukon Territory*.....	57	54	3
Northwest Territories and other field services*.....	464	410	54
Forestry Branch*.....	747	683	64
National Museum of Canada*.....	110	105	5
Canadian Government Travel Bureau*.....	98	92	6
	5,057	4,759	298
Post Office—			
Departmental administration.....	339	329	10
Operations*.....	25,959	25,179	780
Financial services.....	414	415	(1)
	26,712	25,923	789

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—*Continued*

	Employees Authorized		Increase (Decrease)
	March 1961	March 1960	
DEPARTMENTS (Continued)			
Privy Council Office.....	169	125	44
Public Archives and National Library—			
Public Archives.....	115	111	4
National Library.....	43	41	2
	158	152	6
Public Printing and Stationery*.....	453	458	(5)
Public Works—			
General administration*.....	1,703	1,648	55
Maintenance and operation of public buildings*.....	6,894	6,862	32
Harbours and rivers engineering service*.....	617	609	8
Development engineering service*.....	149	138	11
	9,363	9,257	106
Royal Canadian Mounted Police (Civilian Staff).....	1,158	1,118	40
Secretary of State—			
Departmental administration.....	61	60	1
Companies Division.....	25	24	1
Trade Marks Division.....	52	52	—
Bureau for Translations.....	320	315	5
Patent and Copyright Office.....	327	322	5
	785	773	12
Trade and Commerce—			
General administration*.....	1,456	1,420	36
Dominion Bureau of Statistics*.....	1,741	1,697	44
Board of Grain Commissioners*.....	1,132	1,134	(2)
National Energy Board.....	57	—	57
Special.....	59	47	12
	4,445	4,298	147
Transport—			
Departmental administration.....	578	565	13
Canal services*.....	481	600	(119)
Marine services*.....	3,688	3,567	121
Railway and Steamship services.....	7	7	—
Air services*.....	9,325	8,663	662
Air Transport Board.....	77	64	13
Canadian Maritime Commission.....	24	24	—
Board of Transport Commissioners.....	170	171	(1)
	14,350	13,661	689
Veterans Affairs—			
Department*.....	13,148	13,153	(5)
Canadian Pension Commission.....	404	419	(15)
Soldier Settlement and Veterans Land Act.....	984	993	(9)
	14,536	14,565	(29)
Total, Departments.....	195,309	193,216	2,093
CROWN CORPORATIONS (Note 3)—			
Atomic Energy of Canada Limited—			
Professional.....	535	518	17
Non-professional.....	1,099	997	102
Hourly rate.....	1,214	1,197	17
	2,848	2,712	136
Canadian Arsenals Limited—			
Salaried.....	1,076	1,166	(90)
Hourly rate—productive.....	916	1,116	(200)
Hourly rate—non-productive.....	787	896	(109)
	2,779	3,178	(399)

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—Continued

	Employees Authorized		Increase (Decrease)
	March 1961	March 1960	
CROWN CORPORATIONS (Continued)			
Canadian Broadcasting Corporation—			
Administrative (including field offices).....	1,423	1,373	50
Programming and production.....	3,493	3,315	178
Engineering.....	2,040	1,937	103
Other.....	548	528	20
	7,504	7,153	351
Canadian Commercial Corporation.....	60	54	6
Canadian National Railways.....	96,621	103,237	(6,616)
Canadian Overseas Telecommunication Corporation—			
Administrative.....	85	82	3
Operating.....	304	293	11
	389	375	14
Canadian Patents and Development Limited.....	4	1	3
Central Mortgage and Housing Corporation—			
Regular.....	1,854	1,893	(39)
Contract and casual.....	37	39	(2)
	1,891	1,932	(41)
Cornwall International Bridge Company Limited.....	15	14	1
Crown Assets Disposal Corporation.....	106	114	(8)
Defence Construction (1951) Limited.....	392	420	(28)
Eldorado Aviation Limited.....	43	47	(4)
Eldorado Mining and Refining Limited—			
Administrative.....	197	253	(56)
Operating.....	756	1,059	(303)
Research.....	55	48	7
	1,008	1,360	(352)
Export Credits Insurance Corporation.....	32	30	2
Farm Credit Corporation.....	308	183	125
The National Battlefields Commission.....	23	23	—
National Capital Commission—			
Administrative, Engineering, etc.....	85	76	9
Prevailing rate—seasonal.....	290	285	5
Construction employees for specific works.....	178	125	53
	553	486	67
National Harbours Board—			
Salaried—Permanent, seasonal and temporary.....	862	827	35
Prevailing rate—Permanent, seasonal and temporary.....	1,407	1,442	(35)
	2,269	2,269	—
Northern Canada Power Commission—			
Administrative.....	36	41	(5)
Operating.....	167	100	67
	203	141	62
Northern Ontario Pipe Line Crown Corporation.....	3	4	(1)
Northern Transportation Company Limited.....	42	45	(3)
Polymer Corporation Limited—			
Salaried.....	932	906	26
Hourly rate.....	1,696	1,748	(52)
	2,628	2,654	(26)

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—*Concluded*

	Employees Authorized		Increase (Decrease)
	March 1961	March 1960	
CROWN CORPORATIONS (Continued)			
The St. Lawrence Seaway Authority—			
Administrative and Engineering.....	297	315	(18)
Operations.....	645	677	(32)
Maintenance.....	654	610	44
	1,596	1,602	(6)
Trans-Canada Air Lines—			
Flying personnel.....	1,549	1,617	(68)
Other personnel.....	10,047	9,285	762
	11,596	10,902	694
Total, Crown Corporations.....	132,913	138,936	(6,023)
OTHER INSTRUMENTALITIES (Note 3)—			
Bank of Canada.....	813	812	1
Canada Council.....	32	29	3
The Canadian Wheat Board.....	687	673	14
The Custodian.....	17	23	(6)
Industrial Development Bank.....	279	209	70
National Film Board.....	680	678	2
Total, Other Instrumentalities.....	2,508	2,424	84
TOTAL, DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES.....	330,730	334,576	(3,846)

NOTES:

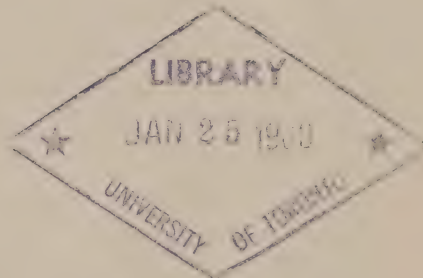
- (1) The boards, commissions, etc., shown separately under departmental headings, are those for which outlines are included in the publication "Organization of the Government of Canada".
- (2) The numbers of employees shown for the departments are the approved Establishment figures appearing in the Details of the Estimates for 1960-61 and 1959-60. This does not take into account changes that may have been approved by Treasury Board during the year. Although seasonal, part-time and/or sessional employees are included, casual employees are not included (the numbers of man-years involved not being given in the Details of the Estimates in support of amounts provided).
- (3) The numbers of employees shown for Crown corporations and other instrumentalities are the "actual strength" figures. In the case of three Crown corporations, the following information is available with respect to establishments authorized by their executive boards:

	March 1961	March 1960	Increase (Decrease)
Canadian Broadcasting Corporation.....	7,822	7,415	407
National Capital Commission—			
Administrative, Engineering, etc.....	90	81	9
Prevailing rate—seasonal.....	449	449	—
Polymer Corporation Limited.....	2,666	2,674	(8)



CANADA

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS
for the
FISCAL YEAR ENDED MARCH 31
1962





CANADA

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS
for the
FISCAL YEAR ENDED MARCH 31
1962

ROGER DUHAMEL, F.R.S.C.
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AUDITOR GENERAL'S REPORT

THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act.

2. In accordance with the requirement of section 70 of the Act, a report is now made to the House of Commons on the results of the audit examinations for the year ended March 31, 1962. Subsection (1) of the section reads:

"The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
 - (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
 - (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
 - (d) an expenditure was not authorized or was not properly vouched or certified,
 - (e) there has been a deficiency or loss through the fraud, default or mistake of any person,
- or
- (f) a special warrant authorized the payment of any money,
- and to any other case that the Auditor General considers should be brought to the notice of the House of Commons."

3. The Statement of Expenditure and Revenue for the year ended March 31, 1962 and the Statement of Assets and Liabilities as at that date, prepared by the Department of Finance for inclusion in the Public Accounts, have been examined and certified by me as required by section 69 of the Financial Administration Act, subject to my comments in this report. Copies of these financial statements are attached hereto as Appendices 1 and 2. The "Summary of Appropriations, Expenditures and Unexpended Balances, by Departments" and the "Summary of Revenue, by Main Classifications and Departments", both as included in the Public Accounts, have also been examined and certified and copies are attached as Appendices 3 and 4.

4. The report contains explanatory notes in paragraphs 29 to 45 regarding the major variations between the 1961-62 and 1960-61 expenditures. There is also submitted, as Appendix 5, a Summary of Expenditure by Standard Objects for the year ended March 31, 1962, with comparable figures for the preceding fiscal year.

5. It will be noted from the Summary of Expenditure by Standard Objects (Appendix 5) that the two largest items of expenditure continue to be interest on the public debt and civil salaries and wages. Together they totalled \$1,669 million and represented one-quarter of the total expenditure for the year. The first of these items, namely, interest on the public debt, is the subject of a detailed appendix in the Public

Accounts. With reference to civil salaries and wages, Appendix 6 to this report gives a summarized listing showing the numbers of employees authorized for the public service by departments, together with Crown corporations and other instrumentalities, at the close of the fiscal year under review in comparison with the numbers at the close of the preceding year, prepared on the basis explained in the footnotes to the appendix.

6. A number of the matters dealt with in this report have been commented upon in previous reports. Where the matters in question had been made the subject of recommendations by the Standing Committee on Public Accounts—mainly in the case of items in my 1960 report, which had been considered by the Committee during its 1961 meetings—the recommendations made by the Committee have been quoted and comments made regarding the action, if any, taken by the departments concerned.

As there have been no meetings of the Committee to date in 1962, the matters dealt with in my 1961 report have not received consideration by the Committee.

Scope of the Audit

7. Examinations of the departmental accounts for the year ended March 31, 1962 were made in conformity with section 67 of the Financial Administration Act, which reads:

"The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion

- (a) the accounts have been faithfully and properly kept,
- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
- (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property."

8. Although the Audit Office has continued its comprehensive audit approach during the past year, I must report that it has not been possible to carry this forward to the extent outlined to the House of Commons in my 1960 report, and to the Standing Committee on Public Accounts in both 1960 and 1961, for the reason that I continue to be unable, under existing governmental recruitment procedures, to obtain the full staff approved by the Treasury Board for my Office. The approved establishment was 159 for 1961-62 and 179 for 1962-63, the latter figure being the minimum strength which, as stated on page 111 of last year's report, I regard as necessary to carry out a basic external audit program within the framework of the existing governmental organization. On October 31st last our actual working staff numbered only 150 compared with 152 on October 31, 1961. The recruitment difficulties are explained in paragraphs 21 to 23 of this report.

9. Examinations have continued to be conducted on a test basis in accordance with past practice, the extent of the tests varying according to the nature of the transactions and the effectiveness of internal controls. The extent to which these test examinations have been limited by recruitment difficulties has become a matter of serious concern. In too many instances staff shortages have resulted in the Audit Office being unable to make test examinations of departmental records with sufficient frequency or in sufficient depth to achieve the minimum standard required by accepted auditing practice—or being obliged to curtail its work in other directions.

Subject to these limitations, our examinations were made in accordance with generally accepted auditing standards and continued to include a general review of the accounting procedures and systems of internal control together with such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

10. The attention of responsible administrative and accounting officers was directed to transactions which, in the Audit Office view, were not in harmony with annual parliamentary appropriations or continuing statutory financial directions, or which lacked conformity with executive orders or regulations.

11. Our examinations extended to all departments, Crown corporations and other agencies of the Government of Canada, excepting those listed in paragraph 154 whose accounts were examined by other auditors.

12. The accounts relating to the receipts and disbursements of the Audit Office were examined by an officer of the public service nominated for the purpose by the Treasury Board, as required by section 75 of the Financial Administration Act.

13. During the course of their work, members of the staff of the Audit Office were, with the exception noted in paragraph 95 of this report, given full access to all vouchers, records and files of the various departments, Crown corporations and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I take pleasure in expressing my appreciation for the co-operation thus extended by departmental and Treasury officers and by the administrative and accounting officers of Crown corporations and other agencies.

14. The Audit Office has addressed detailed reports to the executive boards of Crown corporations and other agencies covering the results of its examinations during the past year. These reports outline the scope of the audit, give a broad summary of the results of operations for the financial year in comparison with previous years, and make comments and offer suggestions regarding weaknesses in internal control and other matters noted during the course of the audit. Where matters dealt with in these reports were considered to be of interest to the House of Commons, references are made in later sections of this report.

As stated in my report last year, it remains our intention to extend the issuance of detailed reports to the heads of government departments. However, this cannot be done until the Audit Office staff strength is brought up to its approved establishment.

Internal Financial Control

15. Effective internal financial control in the operations of a government department, Crown corporation or other agency is a prime consideration for the auditor in determining the scope of his work. In last year's report I referred to the three basic requirements for an effective system of internal financial control in any organization, namely, accurate costs, adequate periodic financial statements and an appropriate internal audit.

16. The need for accurate costs has now been partly met by the action of the Department of Finance in arranging for the estimating of the annual costs of certain major common services, by departments, and showing these costs in summary memorandum form at the beginning of the several departmental sections in the Revised Estimates for 1962-63. While showing the approximate value of major services to be received by a department from other departments in this way provides useful information, it has the disadvantage of relating the amounts only to the department as a whole instead of to individual appropriations relating to the work areas. I hope that the start made this year will lead to the provision for all significant cost factors in the individual appropriations and the inclusion of the actual costs in the accounts of the responsible departments, because the departments benefiting from the services provided cannot be expected to be conscious of costs, for which they are in fact responsible, unless they are charged with them and have to pay them out of their own appropriations. In my opinion this could be achieved without the introduction of any complex accounting procedures.

17. Last year I referred at some length to the need for wider use of effective periodic financial statements for the study and control of costs by government departments, in which actual performance would be measured against either budget projections based on parliamentary appropriations or actual performance in a comparable prior period, or both. Current reporting practices were reviewed by the Royal Commission on Government Organization who recommended that "departments and agencies adopt modern management reporting techniques". As part of its comprehensive audit approach the Audit Office seeks to assist departments and agencies in developing periodic financial statements.

18. I pointed out last year that the external auditor is at all times vitally concerned with the competence and scope of the internal auditing work being carried on in an organization. It is still the case that while many of the larger departments and Crown corporations maintain their own internal auditing staffs, a number have not taken steps along these lines even where the circumstances appear to justify it. On the other hand, some internal auditing units are overstaffed and tend to duplicate the work of other groups.

The solution to this problem, in my opinion, lies in making more effective use of the staffs engaged in internal auditing, coupled with a freer interchange of ideas on procedures, techniques and programming among the various departments, Crown corporations and other agencies. Since internal auditing is essentially a management tool to ensure good performance, it should, as far as is practicable, be carried out under the direction of top management by staff experienced in the techniques and requirements of the particular organization if it is to be effective. Reference was made last year to the fact that the backlog of cost audits of expenditures incurred under contracts entered into by the Department of Defence Production had reached proportions which were of concern to the Department and to the suppliers involved. While this situation continued to exist at March 31, 1962, we note that efforts have since been made to reduce this backlog.

The Public Accounts

19. I expressed the view in my reports both last year and in 1960 that as the Public Accounts constitutes in effect Canada's annual financial report to its shareholders—the general public—it should conform to the highest standards of financial reporting in the country and be presented in a clear and concise manner without being encumbered with unnecessary detail.

Although attention was given to this problem by the Public Accounts Committee in its Second Report, 1961, I hope that further consideration will be given towards summarizing or otherwise reducing a number of the detailed listings presently included in Volume II so as to present more significant and relevant information to Parliament and the public. Examples of additional important information which I believe should be disclosed in the Public Accounts are to be found in paragraph 93 suggesting that explanatory statements be given of revenue remissions, in paragraph 140 suggesting a more informative disclosure of all unpaid accounts receivable due to the Receiver General, and in paragraph 189 suggesting the inclusion of financial statements of departmental operating activities.

Form of the Estimates

20. I continue to hold the view that expenditures of public funds at the level at which they exist today are of such importance to the Canadian economy that it is essential that the Estimates be presented to Parliament in the simplest and clearest manner possible. It seems to me essential to have what might be described as a maximum of information, well set out, having to do with the proposed spending. In my 1960 report I recommended that consideration be given to the form of Estimates presentation with a view to providing more meaningful information, and since the four examples I gave at that time are still pertinent I now repeat them:

- (a) comparing the amounts estimated for the ensuing year directly with the anticipated actual expenditure for the current year, as well as with the amounts that had been estimated for the current year;

- (b) giving the estimated amounts in three columns: estimated expenditure (gross); estimated revenue; and net requirements to be voted (thus giving Parliament an opportunity to consider the sufficiency of receipts for services rendered in relation to the costs incurred);
- (c) including both operating and capital budgets of Crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving Parliament an opportunity to consider broad policies associated with their operations); and
- (d) including appropriate explanations in all cases where expenditures proposed for the year involve commitments for future years.

It is of interest to note that the Royal Commission on Government Organization in its commentary on the Estimates makes recommendations along these lines.

The Public Accounts Committee in its Fourth Report, 1961, while indicating its approval of certain improvements proposed by the Treasury Board Staff, recognized that there were other possible changes in the form of the Estimates, some of them of a fundamental nature, and recommended that these be considered early in 1962. I hope that action will now be taken to improve the form of the Estimates along the lines indicated.

It must always be recognized that the form of the annual Estimates is important from the accounting point of view because it determines in large measure the manner in which the subsequent accounting for expenditures is maintained and reported upon in the Public Accounts. This in turn is important to the Auditor General because of his responsibilities to Parliament.

Recruitment of Audit Office Staff

21. As the Financial Administration Act directs that the staff necessary to enable the Auditor General to perform his duties is to be appointed under the Civil Service Act, new employees for his Office are recruited by the Civil Service Commission under its regulations and procedures. For many years now the recruiting efforts of the Commission have not been successful in bringing the working staff up to the establishment authorized for the Office, the working staff of 150 on October 31st last being 29 employees short of the 1962-63 authorization. Moreover, the action of the Treasury Board this year in freezing departmental staffs on July 11th has had the further unfortunate effect of eliminating any possibility of improvement in the staff situation. Although certain branches of the Government service have been granted relief in varying degrees from this restriction, my request to the Treasury Board that some relief be granted to the Audit Office was refused.

22. The manner in which existing governmental recruitment procedures could handicap the work of the Audit Office was foreseen by the Public Accounts Committee over two years ago. After expressing its interest in the comprehensive audit approach, the Committee included the following recommendation in its Third Report to the House of Commons on July 20, 1960:

"Parliament has placed broad auditing responsibilities on the Auditor General and they involve the largest and most complex business in Canada today—the Federal Govern-

ment. To carry out these responsibilities adequately in the interests of Parliament and the public requires the highest order of leadership coupled with a competent staff of career accountants and auditors. In the opinion of the Committee it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants.

"Since the Auditor General is responsible only to Parliament, the Committee recommends that at the next Session of Parliament the proposed Special Committee on the Civil Service Act should give consideration to authorizing the Auditor General, with the approval of the Treasury Board, to recruit his own staff under a plan of organization necessary for the proper functioning of his Office and the establishment of rates of compensation for each class of position, having regard to the rates of compensation and conditions of employment for comparable positions in other branches of the public service and outside the public service."

The staff difficulties were again reviewed by the Public Accounts Committee during its meetings last year. In its Fifth Report, 1961 the Committee again reported to the House of Commons, on July 1st, as follows:

"In its Third Report, 1960, the Committee recommended that consideration be given to authorizing the Auditor General, with the approval of the Treasury Board, to recruit his own staff under a plan of organization necessary for the proper functioning of his Office.

"The Committee was informed by the Auditor General that the government had approved an increase, from 141 to 159, in the establishment of his Office for the fiscal year 1961-62. Discussions had been held in January, 1961, with officers of the Civil Service Commission with a view to having the extra positions filled as soon as possible after they became available on April 1, 1961. However, in spite of the best efforts of the Commission, while carrying out the normal recruitment procedures, only one of eight senior auditors required had reported for duty by June 12, 1961, and the total staff stood at only 139 at that date. The Committee is seriously concerned at this state of affairs which is not only subjecting the Audit Office to heavy pressure to complete its audit assignments but is affecting the scope of its work.

"The Chairman of the Civil Service Commission informed the Committee that Clause 39 of the Bill to amend the Civil Service Act would give the Commission the power to delegate to any deputy head the right to select his employees, but he explained that he was unable to state to what extent this section, if enacted, would be used by the Commission.

"The Auditor General, in the discharge of his broad auditing responsibilities, is responsible directly to Parliament. It is fundamental to the effective discharge of these responsibilities that the Auditor General's Office be strong, capable and efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants. The Committee therefore recommends,

that the Civil Service Commission either reach agreement with the Auditor General on some mutually satisfactory staff arrangement or that following enactment of the new Civil Service Act the Commission delegate to the Auditor General the right to select his employees in order that he may carry out the responsibilities placed on him by statute."

23. In view of the serious effect that the recruitment difficulties and delays are having on the scope of the work of the Audit Office, I have asked the Minister of Finance if steps could be taken whereby the Auditor General might be empowered to recruit and

manage his small professional staff as recommended by the Public Accounts Committee in 1960 and again in 1961.

Summary of Expenditure and Revenue

24. The Statement of Expenditure and Revenue for the year ended March 31, 1962, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as Appendix 1 to this report. Expenditure for the year amounted to \$6,521 million and revenue to \$5,730 million, resulting in a deficit of \$791 million. By comparison, there were deficits of \$340 million in the preceding year and \$413 million in 1959-60.

Expenditure

25. The Summary of Appropriations, Expenditure and Unexpended Balances, by Departments, for the year ended March 31, 1962, as published in the Public Accounts, is reproduced as Appendix 3 to this report and shows appropriations of \$6,807 million, expenditure of \$6,521 million and unexpended balances of \$286 million.

26. Of the \$6,807 million of appropriations available for expenditure in the year, \$2,721 million was provided by continuing statutory authorities and \$4,057 million was granted by Appropriation Acts (Nos. 1, 3, 4 and 5 of 1961 and Nos. 1, 2 and 4 of 1962) while \$29 million remained available from a continuing 1960-61 appropriation (Vote 592).

Of the \$6,521 million of expenditure during the year, \$2,721 million was incurred under the continuing statutory authorities, with \$3,800 million being spent under the authority of the appropriations granted for the year.

Of the \$286 million of unexpended balances, \$247 million lapsed in compliance with section 35 of the Financial Administration Act. Of the remaining \$39 million of unexpended balances, \$37 million relates to Vote 614 and remains available for expenditure in 1962-63 because of the following special wording of the Vote:

"Payments in accordance with terms and conditions approved by the Governor in Council to Provinces and in respect of Indian Bands under the Municipal Winter Works Incentive Program during the 1961-62 and 1962-63 fiscal years of amounts not exceeding one-half of the cost of labour incurred in the period from the 15th day of October, 1961 to such day in the fiscal year 1962-63 as may be determined by the Governor in Council; and to authorize payments in those fiscal years to Provinces in respect of previous Municipal Winter Works Incentive Programs in accordance with terms and conditions approved by the Governor in Council—\$40,000,000."

27. The lapsed balances of \$247 million represented 6.1% of the \$4,057 million of appropriations under Appropriation Acts. This compares with lapsed balances representing 6.0% of such appropriations at the close of the preceding year and 8.8% at the end of

1959-60. In the cases of the following departments, the lapsed balances represented more than 10% of the appropriations under Appropriation Acts:

Department	Appropriations	Lapsed balances	
		Amount	%
Atomic Energy	\$ 39,734,000	\$ 5,022,000	13
Defence Production	27,290,000	3,386,000	12
Forestry	16,731,000	2,011,000	12
Labour (exclusive of appropriation for the Municipal Winter Works Incentive Program)	126,526,000	39,814,000	31
Northern Affairs and National Resources	91,759,000	10,564,000	12
Privy Council	5,096,000	643,000	13
Public Works	171,074,000	21,929,000	13

28. The following table summarizes the expenditure, by departments, for the fiscal year 1961-62, in comparison with the corresponding amounts for the two previous years:

Department	1959-60	1960-61	1961-62
Agriculture	\$ 227,420,000	\$ 264,915,000	\$ 286,684,000
Canadian Broadcasting Corporation	63,946,000	66,766,000	78,161,000
Citizenship and Immigration	54,917,000	61,049,000	65,016,000
External Affairs	97,221,000	103,023,000	95,571,000
Finance	1,420,155,000	1,460,027,000	1,511,953,000
Labour	102,885,000	121,336,000	168,885,000
Mines and Technical Surveys	54,432,000	59,120,000	67,599,000
National Defence	1,514,904,000	1,517,531,000	1,626,104,000
National Health and Welfare	818,371,000	887,147,000	1,040,276,000
National Revenue	68,696,000	73,261,000	75,330,000
Northern Affairs and National Resources ..	74,346,000	74,296,000	82,342,000
Post Office	165,792,000	178,372,000	185,003,000
Public Works	217,876,000	200,892,000	188,813,000
Royal Canadian Mounted Police	52,444,000	56,023,000	60,497,000
Trade and Commerce	17,961,000	21,764,000	39,472,000
Transport	296,447,000	336,447,000	410,391,000
Veterans Affairs	288,305,000	292,298,000	333,223,000
Other departments	166,743,000	183,834,000	205,326,000
	<u>\$ 5,702,861,000</u>	<u>\$ 5,958,101,000</u>	<u>\$ 6,520,646,000</u>

Comments are made in the following paragraphs regarding the significant increases or decreases in individual appropriations or groups of appropriations which mainly accounted for the variations between the departmental expenditure totals listed above for 1960-61 and 1961-62.

29. *Agriculture.* The increase of \$22 million or 8% in expenditure by this Department in 1961-62 in comparison with the preceding year was more than accounted for by the increase of \$39 million—from \$9 million to \$48 million—in the deficit of the Prairie Farm Emergency Fund (see paragraph 58). There was also an increase of \$6 million (29%) in outlays on rehabilitation and reclamation projects. The most significant decrease was that of \$31 million—from \$53 million to \$22 million—in the net operating loss of the Agricultural Stabilization Board.

30. *Canadian Broadcasting Corporation.* The appropriations providing for grants to this Corporation were charged \$78 million during the year, an increase of \$11 million or 17% over 1960-61. The increase was mainly due to the higher net operating requirements of the radio and television services which amounted to \$70 million in 1961-62 compared with \$59 million in the preceding year.

31. *Citizenship and Immigration.* The increase of \$4 million or 6% in expenditure by this Department in 1961-62 compared with the preceding year was mainly due to net increases totalling \$4 million (9%) in expenditure incurred by the Indian Affairs Branch.

32. *External Affairs.* The decrease of \$7 million or 7% in this expenditure resulted from decreases of \$18 million, offset by increases of \$11 million. There was no expenditure during the year comparable to the outlay of \$6 million in 1960-61 for the purchase and transfer of wheat flour to assist in the establishment of strategic stockpiles of food supplies in member states of the North Atlantic Treaty Organization. There was also a decrease of \$7 million in contributions of food supplies to international relief organizations and one of \$3.5 million in the West Indies Assistance Program. The most significant increase was one of \$4 million in respect of the United Nations Congo Ad Hoc Account, with increases of \$1.3 million in costs of representation abroad, \$1.4 million in assessments for memberships in international organizations, and \$1.2 million in the Special Commonwealth Africa Aid Program.

33. *Finance.* The 1961-62 expenditure of \$1,512 million by this Department was \$52 million or 3.6% greater than the total spent in the preceding year, there being significant increases in two classes of expenditure: interest on the public debt rose \$46 million or 6%, and the Government's contribution to the Public Service Superannuation Account (to match contributions made by contributors during the preceding fiscal year) increased by \$5 million or 13%.

34. *Labour.* The expenditure of this Department increased by \$48 million or 39% over the preceding year. Payments to the provinces to provide financial assistance to vocational and technical schools increased by \$27 million—from \$8 million to \$35 million—while payments in respect of the municipal winter works program increased by \$15 million—from \$9 million to \$24 million—over the comparable expenditure in 1960-61.

35. *Mines and Technical Surveys.* The increase of \$8 million or 14% in this expenditure in 1961-62 was largely due to an increase of \$5 million (34%) in outlays for surveys and mapping services.

36. *National Defence.* The expenditure of \$1,626 million in 1961-62 by this Department was \$109 million or 7% more than in the preceding year. Increases occurred in expenditure by each of the three Armed Services as follows: the Royal Canadian Navy, \$27 million (7%); the Canadian Army, \$40 million (10%); and the Royal Canadian Air Force, \$30 million (4%). In addition, the Government's contribution to the Canadian

Forces Superannuation Account was \$15 million (38%) greater, due mainly to the contribution recorded in 1960-61, as a charge to the appropriation provided for the purpose in that year, being in respect of the nine months' period ended December 31, 1960, whereas the contribution recorded in 1961-62, in accordance with the Canadian Forces Superannuation Act, was in respect of the twelve months' period ended December 31, 1961.

37. *National Health and Welfare.* The expenditure of \$1,040 million represented an increase of \$153 million or 17% in 1961-62 compared with the preceding year and was largely accounted for by increases of \$95 million (50%) in the Government's contributions under the Hospital Insurance and Diagnostic Services Act, \$41 million (79%) in unemployment assistance and \$15 million (3%) in family allowance payments.

38. *National Revenue.* Of the \$2 million or 3% increase in expenditure recorded for this Department in 1961-62, \$0.7 million (1.9%) was in the Customs and Excise Division and \$1.3 million (3.9%) in the Taxation Division, due to general increases in administrative costs in both divisions.

39. *Northern Affairs and National Resources.* Expenditure by this Department was up by \$8 million or 11% in comparison with 1960-61, with \$5 million (22%) of the increase being in expenditure of the National Parks Branch and \$3 million (10%) in that of the Northern Administration Branch.

40. *Post Office.* This expenditure increased by \$7 million or 4% in the year, due mainly to general increases in the cost of operations.

41. *Public Works.* The decrease of \$12 million or 6% in expenditure by this Department compared with the preceding year was more than accounted for by a decrease of \$16 million (28%) in outlays connected with the construction of the Trans-Canada Highway.

42. *Royal Canadian Mounted Police.* The expenditure incurred increased by \$4 million or 8% during 1961-62, accounted for by increases totalling \$4 million (10%) in the operation and maintenance of the Land, Air and Training Divisions.

43. *Trade and Commerce.* Expenditure by this Department increased by \$18 million or 81% during the year under review, due primarily to the increase of \$14 million in outlays by the Dominion Bureau of Statistics, which included \$12 million in respect of the 1961 Decennial Census of Canada.

44. *Transport.* The expenditure of \$410 million by this Department in 1961-62 represented an increase of \$74 million or 22% over the preceding year. To the extent of \$50 million, this increase was accounted for by interim payments to railway companies, related to recommendations of the Royal Commission on Railway Problems (Transportation) pending completion of its report, by way of compensation for the maintenance of

their rates on freight traffic at reduced levels. There were no comparable outlays in the preceding year. Other significant increases in the expenditure of the Department were \$7 million (25%) in outlays for radio aids to air and marine navigation, \$5 million (9%) in capital expenditures at national airports, \$4 million in payments to the National Harbours Board towards meeting reconstruction and capital expenditures (\$4.9 million for 1961-62 compared with \$0.6 million for 1960-61), and \$4 million in the payment required to meet the deficit of Trans-Canada Air Lines (\$6.5 million for 1961 compared with \$2.6 million for 1960). The principal decrease in expenditure was in the Government's contribution to the Railway Grade Crossing Fund, which was reduced from \$15 million in 1960-61 to \$10 million in 1961-62. There was no significant variation from the preceding year in the payment required to meet the deficit of the Canadian National Railways, the deficit of \$67 million for the Company's financial year 1961 being approximately the same as that for the preceding year.

45. *Veterans Affairs.* Increases of \$27 million (18%) in pensions for disability and death and \$17 million (29%) in war veterans' allowances more than accounted for the increase of \$41 million or 14% in expenditure by this Department during the year under review. The increases were the result of the higher rates of pension and allowances which were in effect during 1961-62.

Revenue

46. The Summary of Revenue, by Main Classifications and Departments, for the year ended March 31, 1962, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General, is reproduced as Appendix 4 to this report. The summary shows tax revenues accounting for \$5,111 million of the total revenue of \$5,730 million.

47. The following table summarizes the revenue, by principal sources, for the past three years:

	1959-60	1960-61	1961-62
Tax revenues:			
Personal income tax	\$ 1,566,644,000	\$ 1,711,160,000	\$ 1,792,656,000
Corporation income tax	1,142,880,000	1,276,629,000	1,202,054,000
Income tax on dividends, interest, etc., going abroad	73,353,000	88,174,000	112,306,000
Sales tax	732,658,000	720,617,000	759,678,000
Other excise taxes	286,568,000	290,658,000	262,526,000
Customs duties	525,722,000	498,698,000	534,516,000
Excise duties	335,207,000	344,945,000	362,799,000
Estate tax	88,431,000	84,879,000	84,579,000
Other tax revenues	877,000	17,000	51,000
	<u>4,752,340,000</u>	<u>5,015,777,000</u>	<u>5,111,165,000</u>
Non-tax revenues:			
Return on investments	239,654,000	283,769,000	307,502,000
Net postal revenue	167,562,000	173,594,000	183,679,000
Other non-tax revenues	130,195,000	144,540,000	127,278,000
	<u>537,411,000</u>	<u>601,903,000</u>	<u>618,459,000</u>
	<u>\$ 5,289,751,000</u>	<u>\$ 5,617,680,000</u>	<u>\$ 5,729,624,000</u>

48. The amounts shown for income taxes and sales tax do not include collections of taxes levied under the Old Age Security Act, R.S., c. 200. These collections, which amounted to \$643,954,000 in the year, were credited to the Old Age Security Fund. A summary of the transactions relating to this Fund during the year, in comparison with the corresponding amounts for the two previous years, is given in paragraph 131.

49. *Excise taxes.* The following is a summary of the excise taxes, other than sales tax, collected during the year ended March 31, 1962, with comparable amounts for the two previous years:

<u>Excise Tax</u>	<u>1959-60</u>	<u>1960-61</u>	<u>1961-62</u>
Cigarettes	\$ 163,608,000	\$ 172,197,000	\$ 185,176,000
Automobiles	64,281,000	59,627,000	25,270,000
Manufactured tobacco	19,292,000	18,697,000	19,599,000
Television sets and tubes	9,387,000	8,466,000	9,570,000
Toilet articles and preparations	7,651,000	8,406,000	9,397,000
Phonographs, radios and tubes	8,372,000	7,460,000	8,853,000
Jewellery, clocks, watches, chinaware, etc.	5,609,000	5,943,000	5,577,000
Wines	3,027,000	3,224,000	3,350,000
Cigars	2,603,000	2,755,000	2,775,000
Sundry excise taxes	3,099,000	4,212,000	3,943,000
Refunds and drawbacks	-361,000	-329,000	-10,984,000
	<u>\$ 286,568,000</u>	<u>\$ 290,658,000</u>	<u>\$ 262,526,000</u>

The reduction of \$34 million or 58% in collections of excise tax on automobile sales resulted from the repeal of such tax effective June 21, 1961. The repeal of this tax, which was accompanied by remission of the tax on automobiles in the hands of dealers, was also responsible for the increase in refunds and drawbacks in 1961-62 compared with the preceding year.

50. *Excise duties.* A listing of the excise duties collected during the year ended March 31, 1962, in comparison with the corresponding amounts for the two previous years, is given in the following table:

<u>Excise Duty</u>	<u>1959-60</u>	<u>1960-61</u>	<u>1961-62</u>
Cigarettes	\$ 136,931,000	\$ 140,365,000	\$ 151,034,000
Spirits	102,354,000	108,502,000	114,088,000
Beer	90,704,000	90,971,000	92,716,000
Other excise duties	9,279,000	9,328,000	9,521,000
Refunds and drawbacks	-4,061,000	-4,221,000	-4,560,000
	<u>\$ 335,207,000</u>	<u>\$ 344,945,000</u>	<u>\$ 362,799,000</u>

51. *Return on investments.* The \$307,502,000 return on investments for 1961-62 represented an increase of \$24 million or 8% over the preceding fiscal year. The following

is a listing of the revenue from the various investments in 1961-62 with comparable figures for the two previous fiscal years:

<u>Investment</u>	<u>1959-60</u>	<u>1960-61</u>	<u>1961-62</u>
Bank of Canada	\$ 74,012,000	\$ 90,175,000	\$ 107,693,000
Central Mortgage and Housing Corporation ...	43,804,000	59,576,000	71,754,000
Exchange Fund Account	25,513,000	32,536,000	32,606,000
Loans to National Governments	31,104,000	30,280,000	29,485,000
Securities Investment Account	3,546,000	5,063,000	15,068,000
Deposits with chartered banks	10,493,000	6,645,000	6,394,000
Farm Credit Corporation	2,815,000	4,127,000	5,962,000
Veterans' Land Act loans	4,952,000	5,212,000	5,895,000
Eldorado Mining and Refining Limited	4,230,000	4,935,000	5,000,000
Northern Ontario Pipe Line Crown Corporation	4,074,000	4,299,000	4,310,000
National Harbours Board	3,321,000	3,884,000	3,943,000
Polymer Corporation Limited	3,000,000	3,000,000	3,000,000
Canadian National Railways	11,073,000	4,982,000	1,452,000
The St. Lawrence Seaway Authority	5,000,000	13,149,000	—
Other loans and investments	12,717,000	15,906,000	14,940,000
	<u>\$ 239,654,000</u>	<u>\$ 283,769,000</u>	<u>\$ 307,502,000</u>

52. The amounts shown for revenue from the investment in the Bank of Canada represent the annual profits earned by the Bank and surrendered to the Receiver General as required by section 28 of the Bank of Canada Act, R.S., c.13.

The Central Mortgage and Housing Corporation amount for 1961-62 comprised \$66,022,000 (\$54,344,000 in 1960-61) of interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, R.S., c.46, and \$5,732,000 (\$5,232,000 in 1960-61) representing the profit for the Corporation's financial year ended December 31st, which was transferred to the Receiver General as required by section 30 of the Act.

The \$15,068,000 shown as revenue from the Securities Investment Account for 1961-62 was after absorbing the \$5,786,000 net loss that resulted from the taking over, from the Unemployment Insurance Fund, of Government of Canada and Canadian National Railways securities at their book values (see paragraph 200). The Canadian National Railways securities were sold at a loss to the Account of \$6,878,000 while the Government of Canada securities were cancelled and cleared from the Account at par, producing a bookkeeping gain of \$1,092,000. The substantial increase of \$10,005,000 in revenue from the Securities Investment Account during the year was mainly due to income of \$9,340,000 from investments acquired for the subsidiary Purchase Fund which was established to assist in the management of the public debt, pursuant to an announcement by the Minister of Finance in his Budget Speech of June 20, 1961.

The absence of a return from the investment in The St. Lawrence Seaway Authority in 1961-62 was due to the necessity of deferring payment of the interest which had accrued during the year on loans made to the Authority. Of the \$13,149,000 shown as revenue from the investment in the Authority in the preceding year, \$9,500,000 was received out of further borrowings by the Authority from the Minister of Finance expressly for the purpose of paying the interest, as was mentioned in last year's report (paragraph 63).

53. *Net postal revenue.* The following table shows the gross postal revenue less disbursements therefrom, and the resulting net postal revenue for the past three fiscal years:

	1959-60	1960-61	1961-62
Gross postal revenue	\$ 193,593,000	\$ 201,952,000	\$ 213,518,000
Disbursements—			
Remuneration of postmasters and staffs at certain			
classes of smaller post offices	22,053,000	24,050,000	25,171,000
Other disbursements	3,978,000	4,308,000	4,668,000
	<u>26,031,000</u>	<u>28,358,000</u>	<u>29,839,000</u>
Net postal revenue	<u>\$ 167,562,000</u>	<u>\$ 173,594,000</u>	<u>\$ 183,679,000</u>

The amounts shown for “other disbursements” mainly comprise compensation paid to messengers for special delivery of letters and parcels, charges on parcels mailed in Canada for delivery in foreign countries and transit charges on Canadian mail forwarded through foreign countries.

In paragraph 185 of this report a summary is given of the Post Office transactions for the year under review, in comparison with the corresponding figures for the previous fiscal year, together with comments on the recorded excess of expenditure over revenue.

54. *Other non-tax revenues.* An analysis of the amounts shown in the table in paragraph 47 for “other non-tax revenues” for the year 1961-62, with comparable figures for the two previous fiscal years, is given in the following table:

	1959-60	1960-61	1961-62
Privileges, licenses and permits	\$ 24,970,000	\$ 27,206,000	\$ 23,271,000
Proceeds from miscellaneous sales	21,892,000	23,981,000	25,902,000
Services and service fees	31,299,000	35,672,000	42,453,000
Refunds of previous years' expenditure	40,630,000	40,544,000	18,163,000
Miscellaneous	11,404,000	17,137,000	17,489,000
	<u>\$ 130,195,000</u>	<u>\$ 144,540,000</u>	<u>\$ 127,278,000</u>

Comments on Expenditure and Revenue Transactions

55. Reference has already been made to the statutory responsibility of the Auditor General, under section 70 of the Financial Administration Act, to call attention to specific classes of transactions observed during his examinations and to any other matter that he ‘considers should be brought to the notice of the House of Commons’.

Pursuant to this direction, I consider that the following matters relating to the expenditure and revenue transactions examined during the fiscal year under review should be brought to the attention of the House in this report.

56. *Questionable charge to Vote 611.* This appropriation reads:

"Payments to western grain producers to be distributed on the following basis, namely, \$1.00 per cultivated acre up to a maximum of 200 acres per farm in accordance with regulations of the Governor in Council—\$42,000,000."

Although this wording provides only for payments to grain producers on the basis of cultivated acreage, related administrative costs incurred by the Canadian Wheat Board on behalf of the Department of Agriculture to a total of \$94,157 were charged to the appropriation. Reference to the inclusion of the Board's administrative expenses as a charge to the similar 1960-61 appropriation was made in last year's report (paragraph 55).

57. *Loss on transactions of the Agricultural Products Board.* In last year's report (paragraph 110) we pointed out that, included among current assets in the Statement of Assets and Liabilities as at March 31, 1961 was a balance of \$4,861,000 representing the net loss sustained in the purchase of agricultural products by this Board during the year then ended. We expressed the view at that time that a parliamentary appropriation should have been sought to authorize the recording of this loss as a charge to Expenditure during the year.

Attention is now drawn to Vote 684, Appropriation Act No. 4, 1962 which provided for the estimated amount required to recoup the Agricultural Products Board Account to cover the cumulative net operating loss recorded in the Account to March 31, 1962. As no loss was anticipated during the year the Vote was for \$4,861,000, and the charge to it was therefore with respect to the loss for 1960-61.

58. *Prairie Farm Emergency Fund deficit.* The deficit in the Prairie Farm Emergency Fund during the past year totalled \$47,733,000, an increase of \$38,533,000 over the deficit of \$9,200,000 incurred in the preceding year and the largest since the inception of the Fund in 1939.

The Fund operates as a special account within the Consolidated Revenue Fund to record transactions under the Prairie Farm Assistance Act, R.S., c.213. Under the Act, a levy of 1% is imposed on the purchase price of grain purchased by licensees under the Canada Grain Act and the moneys collected, which during the past year totalled \$6,644,000, are paid directly to the Receiver General and credited to the account. Awards made in accordance with the provisions of the Act are charged to the account and during the past year these totalled \$54,377,000.

Section 11 of the Act, in providing for this special account, states in subsection (8) that:

"If at any time the Fund is insufficient to pay awards made under this Act the Minister of Finance may, out of unappropriated moneys in the Consolidated Revenue Fund, with the approval of the Governor in Council, make an advance to the Fund of the amount required to meet the deficit."

Because of widespread crop failure on the Prairies, it became clear that the Fund would be insufficient to pay the awards payable under the Act during 1961-62. Accordingly, on the submission of the Minister of Finance, the Governor in Council by P.C. 1961-1607 of November 9, 1961 granted authority to the Minister to make advances to the Fund out of unappropriated moneys in the Consolidated Revenue Fund sufficient to pay awards made pursuant to the Act. The amount of such advances was \$47,733,000, which was treated as a deficit and charged directly to Expenditure.

The Department of Finance has always followed this practice without seeking parliamentary approval for such action. On the other hand, the Audit Office has continuously taken the view that Parliament should be given an opportunity to review the results of the Fund's operations and to authorize the writing off of any advances made under the Act to cover operating deficits.

This view was supported by the Public Accounts Committee in its Fifth Report, 1961 (paragraph 27) when, after referring to the fact that the Agricultural Stabilization Act provides for the inclusion of an item in the Estimates to cover the net operating loss of the Agricultural Stabilization Board in any year, it recommended:

"that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in the Estimates to cover any deficit that might be anticipated in the operation of the Prairie Farm Emergency Fund."

The Audit Office was recently furnished with a copy of an opinion, dated April 5, 1962, rendered by the Department of Justice at the request of the Department of Finance, to the effect that the Minister of Finance has authority to pay out of the Consolidated Revenue Fund all payments required under the Act and that no further authority from Parliament is necessary. The Department of Finance regards this opinion as supporting the practice that has been followed of charging the annual deficits in the Prairie Farm Emergency Fund directly to Expenditure without an item being included or any reference being made thereto in the Estimates.

The Audit Office has never questioned the legal authority of the Minister of Finance to pay out of the Consolidated Revenue Fund all awards that are required to be made under the Act. It is our view, however, that where the operations of a fund of this type, whether it operates independently or as a special account on the government's books as part of the Consolidated Revenue Fund, result in a deficit, this should be placed before Parliament through the medium of the Estimates, with the amount of the deficit being charged to Expenditure only after Parliament's approval.

With the exception of the four fiscal years ended March 31, 1952, 1953, 1954 and 1957, awards have exceeded levies collected in each year. In the aggregate, awards of \$314,073,000 have been paid out by the Fund from its inception in 1939 to March 31, 1962, while \$129,970,000 was obtained by the levy, leaving \$184,103,000 to be paid out of unappropriated moneys in the Consolidated Revenue Fund.

Thus, while payments under the Act have been made with due legal authority, the failure to include items in the Estimates laid annually before Parliament for approval means that there has been no provision for regular parliamentary review of the operations of the Fund, or approval of substantial expenditure charges—\$47,733,000 in 1961-62.

59. *Unusual charge to Vote 67.* This Vote provided the sum of \$9,574,385 for "departmental administration" of the Department of Defence Production. Included among the charges to the Vote, however, with the concurrence of the Treasury Board, was an amount of \$52,882 for the cost of demolishing a wharf at Dartmouth, N.S., which had been built by the Department of Munitions and Supply during World War II. The wharf was declared surplus to the Crown Assets Disposal Corporation in 1947 but the Corporation was unable to dispose of it and responsibility for it was returned to the Department of Defence Production. In 1958 the National Harbours Board recommended its demolition because its condition was regarded as a hazard to navigation. This was accomplished by contract during the year under review.

The propriety of charging an outlay of this nature as an administrative expense, without a special reference being included in the text of the vote, is open to question.

60. *Construction of naval vessel on cost plus basis.* In November 1960 the Government approved a recommendation of the Canadian Maritime Commission that a contract for the construction of a vessel, known as a tank cleaning barge, to fill a Navy requirement be allocated, without competition, to a certain shipyard—the intention being to introduce a winter work project there. The ensuing contract, entered into with Treasury Board authority, was for an estimated amount of \$500,000, sales tax extra, on a "price to be negotiated" basis pending the establishment of a firm price, at which time the further approval of the Treasury Board was to be sought.

The work was carried on during the winter of 1960-61 and the completed barge was turned over to the Navy in November 1961. Throughout this period vigorous efforts on the part of the Department of Defence Production failed to result in the negotiation of a firm price. In May 1962 the cost was determined to be \$658,000, including a fee of \$30,000, or \$158,000 in excess of the original estimate of \$500,000. The work having been prolonged, the excess cost was largely caused by the fact that the job had a labour content of over 80,000 man hours compared to about 40,000 estimated for a similar barge which was being constructed for the Department under competitive conditions at another shipyard for a firm price of \$357,000, sales tax extra.

The Treasury Board expressed concern that the cost of construction of a vessel at one shipyard should be nearly twice the cost of a vessel of similar specifications constructed at another shipyard and they requested the Department to take a stand and seek a lower price, adding that they regarded this as a particularly distressing example of the needless expenditure of Crown funds when the amount for overhead is not negotiated on entering into a contract and the Crown is thus forced to take a share of unabsorbed

overhead. In reply, the Department reminded the Treasury Board that this situation would not have arisen had they been permitted to obtain competitive tenders in the normal manner instead of the contract being allocated in the manner described, adding that in their opinion conditions necessary to the establishment of effective and economical contractual arrangements were missing in this case through circumstances of allocation before contractual negotiations were made.

Shortly before our audit was completed, Treasury Board directed that the overhead element in the costs should be reduced according to a formula which would result in a reduction of some \$34,000. The total authorized cost for final settlement thus became \$624,000, sales tax extra.

61. *Delay in recipient countries' certification for counterpart funds.* In previous reports references were made to amounts that had been spent out of funds appropriated by Parliament in respect of the Colombo Plan for the purchase of commodities supplied by Canada, in accordance with agreements with the recipient countries requiring that the commodities be sold or otherwise distributed and "counterpart funds" set aside by them for subsequent use in connection with agreed economic development projects—and requiring, further, that the status of the counterpart funds be certified by the Auditors General of the recipient countries. Attention was drawn to the extent to which such certification had not been provided.

In its Fifth Report, 1961 (paragraph 29) the Standing Committee on Public Accounts recommended:

"that efforts be made by the Director General, External Aid, to obtain from the various recipient countries, on a reasonably current basis, the audit certificates called for by the agreements, and requests the Auditor General to report on the results in due course."

Despite vigorous and continuous efforts by the Director General, External Aid, the submission of audit certificates by recipient countries has remained considerably in arrears. At March 31, 1962 a total of \$180,296,000 had been expended on commodities calling for the establishment of counterpart funds and audit certificates had been received to the extent of only \$48,937,000, leaving a balance of \$131,359,000 not certified (the corresponding balance at the close of the preceding year had been \$118,404,000).

The various recipient countries have recognized the receipt of commodities generating counterpart funds to a total of \$127,621,000 of the \$131,359,000 not yet covered by audit certificates. Acknowledgment of the receipt of commodities having a value of \$3,738,000 remained to be obtained at the year-end.

Serious difficulties have been experienced in obtaining the audit certificates required, and officials of the External Aid Office have expressed the opinion that they may never be obtained from some of the recipient countries. We believe that consideration should be given to an alternative method of accounting for the counterpart funds, in place of the present procedure which does not appear to have proven satisfactory either to the donor or to the recipient countries.

62. *Government contributions not made to superannuation accounts.* In last year's report (paragraph 59) attention was drawn to subsection (2) of section 32 of the Public Service Superannuation Act, 1952-53, c.47, which reads:

"There shall be credited to the Superannuation Account, as soon as possible following the authorization of any salary increase of general application to the Public Service, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this Act, as a result of such salary increase."

Similar provisions are contained in the Canadian Forces Superannuation Act, 1959, c.21, and the Royal Canadian Mounted Police Superannuation Act, 1959, c.34.

It was stated last year that no special credits were given to the Public Service Superannuation Account, the Canadian Forces Superannuation Account or the Royal Canadian Mounted Police Superannuation Account (with offsetting charges to Expenditure) to provide for the increases in benefits payable as a result of the salary and pay increases granted to the members of the Public Service, the Armed Forces and the Royal Canadian Mounted Police during the year ended March 31, 1961—although the additional liabilities resulting from these increases were estimated at \$80,700,000, \$79,050,000 and \$1,760,000, respectively.

It was also mentioned in last year's report as being understood that, so far as the Public Service Superannuation Account was concerned, the Department of Finance took the view that, since the salary increases during 1960-61 had been granted to different groups of Civil Service classes at intervals over a period of several months, they did not represent a "salary increase of general application" for the purposes of the above-quoted statutory requirement.

No contribution was made to the Public Service Superannuation Account during the year under review in respect of the salary increases, ranging up to \$1,000 per annum, granted to approximately 7,000 employees in certain classes in the Civil Service, approved by the Treasury Board on February 15, 1962 retroactively to July 1, 1961. We were informed by the Department that no estimate was available of the additional liability that was thereby imposed upon the Account, and that no request had been made to the Department of Insurance for the making of such an estimate.

If this practice is continued, and the special credits referred to in subsection (2) of section 32 of the Act are not given to the Public Service Superannuation Account (with offsetting charges to Expenditure) when increases are granted during a fiscal year to one or more substantial groups of Civil Service classes, the subsection in question will be rendered inoperative. To the extent that the practice is continued, the present considerable actuarial deficiency in the Account will continue to mount.

63. *Errors in Public Service Superannuation Account pension and contribution calculations.* Reference is made to the comments on this subject contained in paragraph 61 of last year's report. Since then, further meetings have been held with officers of the Department of Finance to consider what steps should be taken to secure a greater measure of internal control.

Our test examinations of the records of the Superannuation Branch for the year ended March 31, 1962 continued to disclose a high incidence of error, involving both overpayments and underpayments of pension on a continuing basis, and also incorrect charges for contributory service. As was pointed out in last year's report, many such errors could be avoided were there a complete review or internal audit of the contributors' files prior to authorization of the payment of benefits.

The administrative directive issued several years ago and quoted in last year's report, provided that once the Superannuation Branch had determined the extent and cost of elective service in the case of an election made prior to January 1, 1954, the case for administrative purposes was to be considered closed unless any contributor or his employing agency reopened the case, in which event the relevant laws were to be applied. It was intended that there would be a complete verification of elective service cases by the Superannuation Branch where the election had been made subsequent to January 1, 1954, and that, in the meantime, all such cases would be checked as usual at retirement. However, in February 1958 this program was abandoned.

Although the practice of making a final check of elective service, prior to authorization of the payment of benefits, was resumed in April 1962, the operations of the Superannuation Branch continue to give cause for concern. We were informed by the Secretary of the Treasury Board in May 1962 that consideration was being given to the re-establishment of the Comptroller of the Treasury's pre-audit which had been discontinued in 1958, but we have not yet been informed of any decision in the matter.

64. *Questionable revision of basis for calculation of annuity.* An employee of a government agency became a contributor to the Superannuation Account in 1944 and elected to contribute for prior part-time service as a consultant to the agency. In this former capacity, during a period of seventeen and one-half years he had received \$40,800 from the agency while drawing \$70,000 in salary from his principal employment. A credit of half-time for the prior service with the agency was requested for superannuation purposes but, after due consideration, the Superannuation Branch decided, in 1945, that it was prepared to accept the election on the basis of only four months to the year, this being more closely proportional to the earnings.

In 1961, on the eve of the contributor's retirement, and as a result of further representations, service of six months to the year was allowed for the prior part-time service, with the result that there was an increase of \$877 per annum—from \$6,865 to \$7,742—in the annuity that was authorized for payment.

65. *Payment under pension plan for employees engaged locally outside Canada.* Pension plans for employees engaged locally (a) in the United States and (b) in the United Kingdom and the Republic of Ireland, were established with the approval of the Governor in Council in 1957, and reference was made to these plans in our 1958 report (paragraphs 56 to 59). In its Second Report, 1959, the Standing Committee on Public Accounts commented on these plans and stated:

"It was drawn to the notice of this Committee that the Public Service Superannuation Act excludes from its benefits 'an employee engaged locally outside Canada' and that the

sole authority for entering into the arrangements was a vote having this text: 'Government contributions to pension plans for employees engaged locally outside Canada'. Therefore, the matter before the Committee was whether the text of this vote was sufficiently explicit to vary a statement of policy enunciated in the Public Service Superannuation Act.

"It is a commonplace to say that, save when the prerogative is applicable, public administration derives its authority from some provision in a statute and that, while the text of a vote may be such as to result in an enactment, such an intent should be clearly stated. The reason is that the object of supply and appropriation being simply to furnish the Crown with authority and opportunity to draw on Consolidated Revenue Fund, the Committee of Supply should never be presumed to be simultaneously determining the law applicable, save and except when the text of the item necessitates.

"In the present cases, contracts have been negotiated and a substantial number of persons have been contributing for over a year. In the circumstances, your Committee accepts the status quo but records that it is of the opinion that legislation is desirable before any like arrangement is entered into with respect to locally engaged persons in any other country."

In June 1961, notwithstanding the opinion thus expressed by the Committee, the Treasury Board authorized a non-contributory pension plan for employees engaged locally in countries other than the United States, the United Kingdom and the Republic of Ireland and to whom the previously established pension plans did not apply. In so doing, the Board apparently relied on the general authority granted to it under section 7 of the Financial Administration Act to make regulations prescribing conditions of employment of persons in the public service, and "for any other purpose necessary for the efficient administration of the public service".

In the Audit Office view, it is doubtful if appropriate authority for the action taken is, in fact, provided by this section because future Parliaments are thus morally committed to provide funds for a pension scheme in respect of which no Parliament has been asked to legislate.

A single benefit under the new non-contributory plan—a lump sum payment of \$735—was charged during the year under review to the annual vote for "Government's contributions to Pension Plans (and Death Benefit Plans) for employees engaged locally outside Canada who are excluded from the Public Service Superannuation Act" (Vote 124).

66. *Interest charges on loans to the National Capital Commission.* In last year's report (paragraph 62) it was stated that it seemed unrealistic to put the National Capital Commission in the position where it was required to pay interest on loans obtained from the Government of Canada for the purpose of acquiring property in the National Capital Region, when funds to meet the interest payments themselves must be provided through parliamentary appropriations.

Up to March 31, 1962 loans totalling \$35,100,000 had been made to the Commission and its predecessor, the Federal District Commission (being an increase of \$9,800,000 during the year under review) for the purpose of acquiring property in the National Capital Region. Of this amount, \$3,622,000 had been repaid, leaving a balance of

\$31,478,000 The loans are secured by promissory notes bearing interest payable semi-annually at rates of from 4% to 5¾% per annum, and repayment is to be made when the property is "used for the purposes of the Commission or disposed of". Repayments of \$3,553,000 in 1961-62 included \$3,200,000 received from the Department of Public Works on account of the cost of 4,400 acres of land allocated for the use of the Animal Research Institute of the Department of Agriculture.

Interest payments by the Commission in 1961-62 amounted to \$1,505,000 and were credited to Revenue by the Department of Finance as "Return on Investments". Of this amount, \$201,000 came from net income from rentals and interest on bank deposits and \$1,304,000 was provided by a parliamentary appropriation (Vote 376) for payment of interest to the Receiver General.

The following is a summary of property acquisitions as at March 31, 1962, financed by means of loans provided to the Commission:

Greenbelt	\$23,375,000
Queensway	3,009,000
Ottawa River Parkway	870,000
Eastern Parkway	804,000
Other properties	2,520,000
	<hr/>
	\$30,578,000
	<hr/>

The properties in the Greenbelt are mostly farm properties which are unlikely to yield anything approaching sufficient rental to pay interest on the sums paid to acquire them and, by Executive direction, they may not be sold. As the lands acquired for the Queensway, the parkways and other projects are put into use in the next few years, appropriations will be required to provide funds through the National Capital Fund in order to pay off the amounts of the loans made with respect to such lands.

We remain of the opinion that, since outlays on such properties are expenditures of the Crown rather than income-producing investments, Parliament should be asked to appropriate funds in the years in which properties are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

67. *Deletion of debts due to the Crown.* In last year's report (paragraph 64) reference was made to balances totalling \$190,986 that had been carried as assets in the Statement of Assets and Liabilities, and that (along with balances in memorandum departmental accounts) were deleted from the accounts under the authority of a dollar vote, although special reference to these asset balances had not been made in the wording of the vote.

A dollar vote (Vote 710) under the Department of Finance, included in 1961-62 Further Supplementary Estimates (4), provided similar authority for deletion from the 1961-62 accounts of certain debts and claims amounting in the aggregate to \$3,710,688. As in the preceding year, there is nothing in the wording of the vote to indicate that, along with balances totalling \$3,704,318 in memorandum departmental accounts, there were also two balances totalling \$6,370, representing advances made under the Veterans' Land

Act that had been carried as assets in the Statement of Assets and Liabilities. The deletion of these two asset balances resulted in a charge for the \$6,370 total, to Expenditure, as shown in the Public Accounts (Volume II, page 11.12).

It is the Audit Office view that when a balance that has been carried as an asset is to be written off as a charge to Expenditure, the Estimates which are laid before Parliament should include an equivalent amount.

68. *Indirect compensation to chartered banks.* Subsection (1) of section 93 of the Bank Act, 1953-54, c.48, reads as follows:

"No bank shall make a charge for cashing a cheque or other instrument drawn on the Receiver General or on his account in the Bank of Canada or in any other bank, or for cashing any other instrument issued as authority for the payment of money out of the Consolidated Revenue Fund, or in respect of any cheque or other instrument drawn in favor of the Receiver General, the Government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the Receiver General."

Although cheques issued by the government are not drawn against accounts in any chartered bank, the Department of Finance has always followed the practice of maintaining the bulk of its cash on deposit with the chartered banks, keeping only the amount required for daily operations in the Bank of Canada. Balances on deposit in the chartered banks and the Bank of Canada at March 31, 1962 amounted to \$746 million compared to \$323 million at March 31, 1961, while year-end balances on deposit during the previous eight years averaged \$352 million. The deposits are distributed among the individual chartered banks according to a formula provided to the Department of Finance by the Canadian Bankers' Association, which is understood to be based on the costs to each bank of handling government business including the handling of government cheques.

Prior to 1957 no interest was paid by the chartered banks to the Receiver General on these deposits. Since January 1, 1957 the Department of Finance has had an arrangement with the Canadian Bankers' Association whereby the banks pay interest on the amount by which minimum weekly balances are in excess of an aggregate of \$100 million. The rate of interest is currently the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10% of that rate. Interest revenue earned by the Department of Finance under this arrangement amounted to \$6,394,000 during the fiscal year ended March 31, 1962 compared to \$6,645,000 for 1960-61 and \$10,493,000 for 1959-60.

It seems clear from section 93(1) of the Bank Act, quoted above, that Parliament does not intend that the banks should be compensated for handling cheques and other instruments payable by or to the Receiver General. However, the maintenance of substantial balances with the banks on the basis described above has the effect of compensating them indirectly for these services.

If the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1964.

69. *Bankruptcy Act administration.* The Bankruptcy Act, R.S., c.14, makes provision for a levy, at a rate to be fixed by the Governor in Council, on payments out of bankrupt estates to defray the expenses of supervision by the Superintendent of Bankruptcy. Revenue from bankruptcy supervision during the year totalled \$151,000, of which \$142,000 resulted from levies and \$9,000 from licence fees assessed under the Act. An increase from 1% to 2% in the basic rate of levy, effective December 1, 1961, contributed to an increase of \$15,000 in the income from levies during the year.

Expenditure on supervision amounted to \$142,000 for the year compared with \$74,000 in 1960-61, or an increase of \$68,000. This was a consequence of the disclosure of irregularities in the administration of estates by a number of trustees. Although the Bankruptcy Act provides for the remuneration of trustees out of the proceeds realized from the property of bankrupts, there were no funds available in some estates to meet the fees and allowances of substitute trustees who replaced those whose licences were cancelled or not renewed as a result of the irregularities. It therefore became necessary for the Department of Justice to meet the expense involved, pending possible recoveries from estates or from the bonds provided by the original trustees. The cost of investigations relating to the irregularities also contributed to the increase in expenditure.

As a result of these special costs, the excess of revenue over expenditure for the year ended March 31, 1962 was reduced to \$9,000 compared with an excess of \$61,000 for the preceding year, notwithstanding the increase in the rate of levy referred to above.

70. *Examination of claims under the Winter Works Program.* In last year's report paragraph 65) attention was drawn to the fact that, unlike most federal-provincial cost-sharing agreements, the agreements under which the federal government reimburses municipalities, through their provincial governments, for one-half of the direct payroll costs incurred on municipal winter works projects contained no specific provision for examination by federal officers of provincial or municipal records supporting the claims, the agreements providing for audit of the claims only by Provincial Auditors.

Officers of the Department of Labour have advised us that they will recommend the incorporation of a provision for examination by federal officers into future agreements submitted for consideration of the provinces and that, in the meantime, the provincial governments have been requested to make available for examination by the Auditor General, records pertaining to the 1962-63 program.

71. *Living allowances to federally-appointed judges.* Subsection (1) of section 39 of the Judges Act, R.S., c.159, prohibits the payment to a judge of any remuneration in addition to his judicial salary "for any duty or service, whether judicial or executive, that he may be required to perform for or on behalf of the Government of Canada or the Government of any province", subsection (3) of the same section simply permitting payment of "such moving or transportation expenses and living allowance as the Governor in Council or the Lieutenant-Governor in Council, as the case may be, may fix by general or special order".

Federally appointed judges have from time to time been appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees. The living allowance commonly paid judges while performing these services on behalf of the Government of Canada is \$60 per day, which is in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation, and taxicabs.

Attention is drawn to the matter because a daily rate of \$60 appears excessive as a living allowance and could be regarded as including an element of remuneration, contrary to subsection (1) of section 39 of the Act.

72. *Unemployment insurance administration.* Under the provisions of the Unemployment Insurance Act, 1955, c.50, administrative expenses of the Unemployment Insurance Commission are paid out of annual parliamentary appropriations (Vote 188, 1961-62). These expenses amounted to \$45,935,000 for 1961-62, compared with \$42,112,000 for the preceding year. The increase of \$3,823,000 was largely caused by upward salary adjustments and the employment of more full-time staff. The establishment approved for the Commission at March 31, 1962 was 9,135 compared to 8,632 at the close of the previous year.

In our 1960 report we referred at some length to the broader coverage which had been effected over the years and the resulting decreasing emphasis on insurance principles recognized when the Fund was first established. This situation was examined by the Public Accounts Committee in 1961. After viewing with alarm the sharp reduction in the balance at the credit of the Fund at that time, the Committee recommended in its Fifth Report, 1961 (paragraph 80):

"that the entire matter undergo immediate and careful study and that action be taken to re-establish and maintain the Fund on a basis consistent with insurance principles."

A special Committee of Inquiry was established by the Governor in Council on July 17, 1961 to undertake a thorough review and analysis of the provisions of the Unemployment Insurance Act and its relation to other social security programs and to inquire into and report on measures needed to deal with seasonal unemployment and the means of correcting any abuses or deficiencies that may be found to exist. The Committee has not yet made its report.

During the fiscal year 1960-61 the Commission increased its investigation-enforcement staff by over 50%, to a total of 122. Penalties imposed on claimants in 1960-61 for false or misleading statements numbered 30,044 compared to 16,851 in the preceding year. No further increases were made in this staff in 1961-62; however, the number of investigations was increased by 57.4%. Penalties imposed on claimants for false or misleading statements during the past year totalled 22,650. This is 24.6% less than the previous year despite the fact that total initial claims allowed during 1961-62 were only 11.3% less than the previous year.

A firm of management consultants was engaged by the Commission during the past year to produce time standards for work measurement, to develop a program of

determining staff requirements for non-measurable activities, to develop a program for measuring performance efficiency, to advise on the role and size of the Commission's standards and methods division and to provide a training program for members of that division. Except for the provision of the training program, the assignment has been completed and reported upon by the consultants. Most of their recommendations are understood to be in course of implementation by the Commission.

A further recommendation by the Public Accounts Committee in its Fifth Report, 1961 (paragraph 81) was:

"that the Auditor General give consideration to the advisability of increasing the scope of his examination of unemployment insurance fund transactions in the field."

In this connection, we reported last year that a moderate increase in our field audit work had been carried out. It has not, however, been possible to extend this increase in the scope of our work further during the year under review by reason of the staff shortage referred to in paragraphs 8 and 9 of this report.

It has continued to be our practice to report to the Chairman of the Commission on each of the examinations we have made, and prompt attention has been given to all observations we have raised, with corrective action being taken where called for. Briefly, the examinations are designed to test the adequacy of internal control over the collection of and accounting for contributions and other income, the payment of benefits and the recording and collection of overpayments. The extent to which adjudication of claims complies with the provisions of the Act and regulations is likewise examined. On the other hand, verification of statements made by claimants, employers and other members of the public, whether by direct interrogation or other means, is carried out by the Commission's own investigation-enforcement staff and no attempt is made by the Audit Office to verify the accuracy or completeness of this information beyond examining the Commission's records in its field offices and questioning apparent deficiencies in these records.

The transactions of the Unemployment Insurance Fund, administered by the Commission, are reported upon in paragraph 200.

73. *National Defence administrative regulations and procedures.* In its Fifth Report, 1961 (paragraph 53) the Standing Committee on Public Accounts observed that on the basis of its experience in prior years with Armed Forces expenditures and the evidence given at the meetings held in the calendar year 1961, the Committee had noted with concern the continuing tendency on the part of some branches of the Armed Services toward incurring ill-considered and wasteful expenditures. The Committee then recommended:

"that the Minister of National Defence enquire into this situation with a view to assuring that there is an appropriate improvement in administrative regulations and procedures."

The foregoing observation was made by the Committee after considering matters bearing on the Department of National Defence, drawn to attention in our 1960 report.

The Minister of National Defence was prompt in issuing a directive to the Chiefs of Staff stressing the importance of good administrative practices throughout the three Services and requesting that they examine the observations made by the Committee and make any necessary changes in regulations and procedures to give effect to the views of the Committee.

In last year's report (paragraph 66) it was noted that travelling and removal expenses of members of the Armed Forces are paid in accordance with provisions contained in Queen's Regulations and Orders, rather than under the Executive regulations that are applicable to the civilian departments. It was stated that, over the years, some of the regulations have been regarded as producing results that were unsatisfactory from the audit point of view, and in each such case it has been our practice to draw the Department's attention to the matter in order that appropriate remedial action might be taken. It was further stated last year that, in general, such action had been prompt; however, two instances were cited where, in the opinion of the Audit Office, the regulations seemed to require some amendment.

In one of these instances the regulations were amended during the year under review on a trial basis. In the other, the Department continued to study ways and means of overcoming the difficulty in question. This difficulty arises when servicemen are permitted to use personally-owned automobiles to transport themselves and their dependents to new places of duty and the regulations, instead of providing for reimbursement of the actual cost, allow claims to be made for amounts equivalent to the calculated cost of the journeys had they been made by means of public transportation facilities. During our test examination of 1961-62 accounts, overpayments continued to be noted and recovery action was taken by the Department in these cases.

In 1960, following comments in the 1958 report regarding the high cost of local moves of furniture and effects of servicemen, the governing departmental regulation was amended to provide a fixed allowance of \$75 for moves in the same vicinity. However, the amended regulation restricts the application of the \$75 allowance to instances where a move results from a serviceman, while remaining with the same unit, being ordered to occupy or vacate a married quarter or to move from one married quarter to another. In instances where a serviceman is required to move as a result of a posting or transfer from one duty location to another, even though it may be in the same vicinity, his full moving costs are paid, including packing and unpacking, as allowed in the case of a long distance move. In the course of a test-check of the 1961-62 accounts, a case was noted where nine servicemen were transferred between military units situated some 20 miles apart and full moving costs were allowed, ranging from \$154 to \$390. It would be preferable were all local moves treated on the same basis regardless of the reasons for them, and were "local moves" defined on the basis of distance without regard to municipal boundaries.

74. *Reimbursement to servicemen for lease termination payments.* Comments regarding these outlays by the Department of National Defence were made in paragraph 56 of the 1960 report, where it was noted that reimbursement was made up to a maximum of three months' rent. After considering the matter at some length in the course of its 1961

meetings, the Standing Committee on Public Accounts included the following observations in its Fifth Report, 1961 (paragraphs 51 and 52):

"The Committee is concerned at the large amount—approximately \$500,000—that is spent annually by the Department of National Defence in reimbursing, in amounts of up to three months' rent, members of the Forces who are required to terminate their leases for housing accommodation.

"The Committee was informed that, although the circumstances might not be identical, the lease form used by officers of the R.C.M.P. provides for only a 30-day termination clause. Having this in mind, and believing that the situation with regard to rental accommodation has improved significantly in recent years, the Committee recommends,

that the maximum period with respect to which reimbursement be made to members of the Forces, in the circumstances mentioned, be reduced to the equivalent of one month's rent in future."

No change has yet been made in the governing regulation, and the general practice has continued to be to make reimbursement on the basis of the permissible maximum of three months' rent.

During the year under review we drew the attention of the Department to a number of cases where, had reasonable foresight been used by the administrative officers and servicemen concerned, savings to the Department would have resulted, for example:

- (1) A number of instances were noted where servicemen were ordered into departmental houses shortly after they had signed leases for rented accommodation and, in a few cases, even before they took occupation of the leased accommodation (in one of the latter cases it cost the Department \$351 for termination of the lease).
- (2) Several cases were noted where servicemen had received some weeks' notice of impending postings to other units and, simply because they had failed to notify their landlords promptly, the full three months' rent liability had to be paid and reimbursement was made accordingly.
- (3) Two instances were observed where leases were signed the day after the units had been notified of postings, and yet reimbursement of three months' rent was made in the usual way (amounting to \$330 in one case and \$210 in the other).

In another case, an officer, upon transfer from Ottawa, made an arrangement with a fellow officer whereby the latter, as a sub-lessee, accepted an assignment of the lease (which had about a year to run) in consideration of the payment of \$345, equal to three months' rent. The lessee then claimed and received reimbursement of the \$345 under the lease liability regulation, which had the effect of providing the sub-lessee with three months' free rent. The Department was questioned regarding the propriety of the payment and the matter is still under consideration.

75. *Education costs incurred by Department of National Defence.* The Department, under Executive authority, provides educational facilities for children of personnel of the regular forces and entitled civilians residing in public quarters by (a) the establishment and operation of departmental schools, and (b) the utilization of nearby civilian school

facilities. As of December 31, 1961 the Department was operating 75 schools at 48 different locations in Canada to accommodate about 28,750 children, where suitable educational facilities were not available within a reasonable distance, while some 9,750 children were attending civilian schools. In Europe the Department operated 22 schools at 13 locations with 7,850 pupils in attendance.

The cost of this function for the fiscal year is not reflected as such in the Public Accounts; however, financial statements prepared by the Department on a memorandum basis for the calendar year ended December 31, 1961 show costs (including \$1,390,000 for outlays for new construction and \$1,876,000 for non-resident fees paid to civilian school boards) totalling \$15,100,000, offset by provincial school grants of \$2,400,000—a net cost of \$12,700,000.

The largest item of gross expenditure was \$6,525,000 for the salaries of the 1,295 teachers employed to staff the schools in Canada. In the course of our examination it was observed that the over-all pupil-teacher ratio in the departmental elementary schools was about 22 to 1, which is considerably below the average ratio for such schools in Canada, generally. Moreover, at about 75% of the schools, the ratio was less than 25 to 1 and at 13 of these it was less than 15 to 1. On the situation being brought to the attention of the Department, it undertook to make enquiries into the pupil-teacher ratios at schools where the ratio is less than 25 to 1.

76. *Loss of aircraft due to negligence.* Normally the Auditor General's annual reports do not include comments on losses of defence property and equipment resulting from the ordinary hazards of military operations, even when substantial amounts are involved. However, the following case is noted for the reason that the circumstances surrounding an accident involving R.C.A.F. equipment indicated that there had been undue negligence, not only by the pilot but also by the administrative officers concerned.

A Reserve pilot serving with a Toronto auxiliary squadron was authorized to fly a Service aircraft for local proficiency practice. In violation of regulations, the aircraft was landed at an airfield other than the one of departure. During an attempted take-off from this airfield a strong cross wind, which exceeded the specified limitation for the operation of the aircraft, rendered it uncontrollable and it crashed through a fence striking five automobiles parked on a road bordering the airfield. The pilot suffered only minor injuries but the aircraft, valued at \$125,000, was a total loss (less salvage of \$22,000) and damage claims totalling \$1,962 were paid to the owners of the automobiles.

Following an official inquiry which brought out that there had been lack of supervision in monitoring the pilot's training, action was taken to ensure a greater degree of supervision over local flying by the Reserve Air Force.

77. *Acceptance of inferior coal without adjustment.* While heating equipment can be designed to burn coal having a specified sulphur content, heavier maintenance costs can

arise if coal with a substantially higher sulphur content is used. Although contracts for coal for the Department of National Defence state the maximum acceptable sulphur content, no financial penalties are provided for in the event that tests of coal delivered reveal that the maximum has been exceeded.

To illustrate, contracts with the same supplier for the supply of coal to an Army camp during the period from 1959 to 1962, amounting in all to \$576,000, specified a maximum acceptable sulphur content of 5.7%, but laboratory analyses of the coal delivered indicated that this specification had not been met; in fact, the analyses demonstrated that the sulphur content had varied between 6.0% and 15.7%. During the three year period abatements amounting to some \$17,900 were made from the supplier's billings to compensate for calorific deficiency and unsuitable sizing of the coal delivered. We were informed that excess sulphur contributed in some degree to the calorific deficiency referred to; however, no specific adjustments, financial or otherwise, were sought or made with the supplier to compensate for the excessive sulphur content in the 59,500 tons received, and the contract was allowed to run its course.

The advisability of including a provision for financial adjustment in respect of excess sulphur content in the general specifications applicable to all coal contracts is now under consideration by the Department and the Canadian Government Specifications Board.

78. *Renovation of remote transmitter station, Halifax.* In January 1961 a contract for \$229,330 was awarded by the Department of Defence Production for renovation of antennae and transmission lines at an Air Force station near Halifax. The site test drawings indicated the bedrock to be from two to fourteen feet below the surface. However, during excavation the contractor discovered that the bedrock was from eighteen to twenty-five feet below the surface in many places. In order to achieve the specified firm bearing of solid rock on which to place the antennae masts and guy anchors, it was necessary to extend the foundations as much as thirteen feet below the elevation indicated on the drawings. In order to do this, a complete redesigning of both the layout of foundations and their method of construction was required, and the contract was amended to provide for the additional costs of \$287,326 which resulted.

Attention is drawn to this expenditure because the contract was amended to an amount more than double that originally called for.

79. *Benefit paid under the Canadian Forces Superannuation Act to a "divorced" wife.* An Air Force officer with less than five years service died of natural causes while serving in the United States. Shortly before his death his wife had obtained a divorce in that country and had remarried. As this divorce was not recognized as legal in Canada the woman, as the "widow" of the deceased officer, was paid a cash termination allowance of \$3,428 and, in addition, the supplementary death benefit of \$5,000. From the legal point of view, these payments are not questioned but they appear to be unrealistic in that they were

made to a person who was no longer, in the accepted sense, the wife of the serviceman at the time of his death.

The Canadian Forces Superannuation Act only permits Executive discretion in withholding an award from a widow if it appears that for a number of years immediately prior to the serviceman's death she had been living apart from him. Consideration might be given to amending the Act to provide for the enlargement of the Executive discretion, to deal with unusual cases such as that referred to above.

80. *Aircraft and equipment received under Canada-United States defence agreement.* During the year under review an agreement was entered into between the Canadian and United States governments whereby, among other things, Canada acquired 66 F-101 (Voodoo) aircraft and appropriate support equipment in return for an undertaking to operate and maintain certain Pine Tree radar line stations until 1968 (at a total estimated cost of \$170 million). This agreement was announced in the House of Commons (Debates, 1960-61, pp. 6179-80).

The aircraft and equipment were recorded, quantitatively, as additions to Air Force inventories in accordance with normal departmental practice. However, the value of the items was not recorded in the Government's central accounts and consequently is not included in National Defence expenditures for the year. Neither is there any explanatory reference thereto in the Public Accounts.

81. *Financial assistance to the Town of Oromocto.* Vote 247 provided for grants to the Town of Oromocto for municipal services and to promote the development of the Town, and grants of \$1,529,400 were paid under this authority during the year under review.

In 1955 the approval of the Governor in Council was obtained by the Department of National Defence to develop the proposed Town, which was in due course incorporated in 1956 by an Act of the Province of New Brunswick. The main purpose of the development was to provide municipal facilities to serve personnel stationed at Camp Gagetown, while, at the same time, avoiding the growth of a purely military community. It is administered by a Board of seven Commissioners, four appointed by the Federal Government and three by the Province.

In order that the Town would not start under a heavy burden of debt the Department turned over to it, without charge, the roads and services already installed in the Service housing area, together with certain parcels of Crown-owned land. This assistance was augmented by capital grants totalling \$1,500,000 and an arrangement was made whereby capital assistance loans, to be secured by the Town's debentures, could be made. As the Town did not have the usual type of municipal tax structure, it was also arranged that until it had developed to a point where it could operate normally the Federal Government would pay annual operating grants, representing the difference between the Town's operating expenses and its revenues. In this connection it was proposed that the initial operating grant should be \$100,000 for 1955-56 with annual increments of approximately \$25,000 during the next five years, the actual amount of each increase to be approved by the Treasury Board. While it was anticipated that the assistance by the Department

during these first few years would suffice until the Town could operate normally with the aid of grants under the Municipal Grants Act, this has not turned out to be the case and federal grants towards operating expenses of the Town have continued at a very high level. The following table summarizes the outlays of public funds since the Town was established:

<u>Year</u>	<u>Capital grants</u>	<u>Capital assistance loans</u>	<u>Operating grants</u>
1955-56	\$ 750,000	—	\$ 50,000
1956-57	750,000	—	50,000
1957-58	—	\$ 1,500,000	350,000
1958-59	—	1,500,000	960,000
1959-60	—	1,000,000	1,656,000
1960-61	—	450,000	1,600,000
1961-62	—	—	1,529,000
	<u>\$ 1,500,000</u>	<u>\$ 4,450,000</u>	<u>\$ 6,195,000</u>

Repayments received in respect of the capital assistance loans totalled \$423,000 to March 31, 1962, together with interest amounts totalling \$692,000.

The Town's operating costs for the calendar year 1961 amounted to \$1,602,000 while its revenues totalled only \$81,000, including tax revenues of \$27,000 and provincial government grants and subsidies of \$9,000. The Department of National Defence owns 1,900 housing units in the Town, representing about 90% of the value of all Town property.

Attention is drawn to the foregoing because, in addition to the extensive grants and loans made for capital purposes, the operating grants that were required to be made since 1956-57 have greatly exceeded original expectations and there seems little likelihood of the Town being able to operate normally in the foreseeable future (see also paragraph 142).

82. *Unauthorized use of Crown-owned vehicles.* From time to time cases have been observed in the audit where accidents which have been costly to the Crown have occurred during the unauthorized use of National Defence vehicles. For example, in the year under review a payment of \$14,500 was made to a woman who suffered injuries when struck by a departmental vehicle that had been used without authority in England in 1958. The driver of the vehicle was reprimanded and undertook to reimburse the Crown \$250, a sum equivalent to the maximum recovery permissible under the regulations applicable when vehicles are driven, with authority, on official business.

The Department of National Defence Act provides for imprisonment of up to two years "or to less punishment" for the unauthorized use of departmental vehicles; however, there is no regulation that allows any amount to be recovered from a serviceman where a loss to the Crown is involved in such cases.

The Treasury Board recently called the attention of all departments and agencies to a directive that had previously been issued for the purpose of controlling the non-official use of Crown-owned vehicles and urged the tightening up of procedures in view of the increasing number of accidents to vehicles being driven by employees while not on duty.

Important as this is, we believe it would serve as a more effective deterrent to the unauthorized use of Crown-owned vehicles were more severe penalties assessed against the offenders.

83. *Indirect contribution towards provincial taxes.* In last year's report (paragraph 73) attention was drawn to an anomaly in the operation of the Hospital Insurance and Diagnostic Services Act in that the federal government, in effect, contributes towards provincial taxes, there being no provision in the Hospital Insurance and Diagnostic Services Act or regulations for the exclusion of these taxes from hospital operating costs shareable under the hospital insurance scheme and claimed by the provinces.

There has been no change in the situation during the past year and our observation therefore still applies. No estimate is available of the amount of provincial tax payments which the federal government may have shared in this manner. This anomaly also exists to some extent in the operation of the Unemployment Assistance Act, 1956, c.26.

84. *Unemployment Assistance.* In paragraph 74 of last year's report, the Audit Office opinion was restated that the Unemployment Assistance Act, administered by the Department of National Health and Welfare, includes ambiguities which have resulted in varying interpretations, and that the text merits further consideration. Our examinations during the year under review have served to confirm this opinion. It is understood, however, that possible changes in the legislation and the use of regulations are currently under study by the Department.

OVERPAYMENTS TO CERTAIN PROVINCES.— Of the several overpayments reported last year, the amount owed by the Province of Nova Scotia was determined to be \$52,000 and final adjustment was made during the year. Also recovered was the remaining \$45,000 owed by British Columbia.

In Quebec the final adjustment in respect of discrepancies referred to in last year's report and which related to the period from July 1, 1958 to September 30, 1959, is still under consideration; meanwhile, \$731,000 has been recovered. Overpayments for the period October 1, 1959 to March 31, 1960 are estimated at \$338,000. The bulk of the overpayments was caused by confusion in interpreting the sections of the Act and Agreement dealing with homes for special care, either the homes or the inmates not being eligible for a variety of reasons.

A preliminary review of the claims from the Province of Quebec for the period April 1, 1960 to December 31, 1961 indicates that there has been a substantial overpayment, \$127,000 of which was recovered in October 1962. In addition to actual disbursements, the Province included in monthly claims amounts to cover assistance provided by homes for special care and welfare agencies not yet included by these bodies in their claims to

the Province. This practice appears to circumvent the provisions of section 13(a) of the agreement under which reimbursement claims from the Province are disqualified if made later than six months following the last day of the month to which they relate. Also, under this procedure it would not be possible to comply with section 5 of the agreement which requires each claim to indicate the total number of persons assisted during the month to which the claim relates and the total amounts paid on behalf of such persons.

The arrangement noted last year whereby the Audit Services Division of the Office of the Comptroller of the Treasury has been assisting the Provincial Auditor of Quebec continues. The practice followed in other provinces whereby the Provincial Auditors' examinations of claims and certifications in accordance with the agreements precede separate examinations made on behalf of the federal government will, we understand, be implemented once the joint audit has been completed to December 31, 1961.

HOMES FOR SPECIAL CARE.—With regard to the cost of maintaining needy persons in provincial or municipal homes for special care, there continues to be a wide variation from province to province in the elements of cost entering into the calculation of monthly accommodation rates. Also, it has been difficult to determine and apply the limitation on accommodation rates for homes for special care imposed by section 7(a) (iv) of the agreement; that is, payments claimed are not to exceed what an individual might reasonably be expected to pay for accommodation of a comparable kind and quality in the same location. For example, in Quebec considerable confusion has arisen because, under the Province's distinctive financial arrangements with homes for special care, it is extremely difficult to determine what a person might reasonably be expected to pay. With respect to provincial or municipal homes falling into the category of homes for special care, this limitation is usually replaced by the inmate-day-cost basis. In one Prince Edward Island institution a monthly rate calculated on this basis and shared by Canada was \$118; yet until January 1, 1962 when it was raised to \$120, the monthly board rate for this institution approved by provincial order in council was \$90. The rate shareable by Canada is open to question as it could be contended that the amount a person might reasonably be expected to pay pursuant to section 7(a) (iv) of the agreement, and therefore shareable by Canada, is the approved board rate.

Another provision of the Act and Agreement relating to homes for special care is that unemployment assistance costs may not include payments to or on behalf of inmates of homes for special care who would normally be cared for in certain institutions, and among those listed are chronic hospitals, mental institutions and institutions for incurables. No satisfactory criteria have yet been developed to distinguish clearly between patients who would normally be cared for in such institutions on the one hand, and in homes for special care on the other. Indeed in the administration of this Act it appears doubtful that the term "institutions for incurables" has any precise meaning, and it is not defined.

WORK FOR RELIEF.—In last year's report reference was made to claims by some Ontario municipalities where recipients had been required to work in return for assistance given them. The Department concurred in our opinion that such assistance was not

shareable under the agreement and during 1962 recovered \$32,300 from the Province in respect of this assistance. However, after discussions with the Province, the Department believes that the practice is not widespread and has decided that attempts to determine its extent in some 900 other municipalities throughout the Province would not be practicable in view of the expense and inconvenience the Province feels would be involved.

SUPPLEMENTAL ALLOWANCES.—In last year's report (paragraph 74) we commented that the Department had agreed that supplemental allowances normally excluded under section 4(2) of the Act could be regarded as additional relief payments in accordance with section 4(3) (b) of the Act and section 8 of the Agreement when they are based on an individual budgetary assessment of need in which basic expenditures as well as income are considered. We also expressed doubt about the way in which the assessments had been made in British Columbia. Our doubts were confirmed by our review of the accounts for the period from September 1, 1960 to July 31, 1961 and by the findings of the Audit Services Division of the Office of the Comptroller of the Treasury. Their interim report disclosed overpayments estimated at \$111,400 which were recovered during the year.

In addition, we noted two different scales of maximum basic assistance being applied, the more generous one being for those eligible for supplemental allowances. Although need may vary to some extent from person to person or from region to region, it would seem that a person's needs should not be considered automatically to increase after eligibility for supplemental allowance has been established. Also, if these allowances are permitted to be claimed as unemployment assistance, the propriety of maintaining the three year residence requirement for former residents of other provinces is open to question, because section 4 of the Unemployment Assistance Agreement specifically excludes length of residence as a condition for receipt of assistance by these applicants. It would seem that uniform standards of assistance should be applied if supplemental allowances are to be considered shareable under the Unemployment Assistance Act.

MOTHERS' ALLOWANCES.—The Unemployment Assistance Act provides for the exclusion of recipients of mothers' allowances, a provincial scheme to assist mothers whose families have been deprived of the wage earner. As it was envisaged that such cases would be shifted from the mothers' allowance program to general welfare and claimed under unemployment assistance, as indeed has happened, provision was made in the agreement for an amount to be deducted from the provinces' unemployment assistance claims to compensate the federal government for sharing in the cost of what was provided formerly through the provincial mothers' allowance program. However, there is a time lag built into the formula for calculating the deduction which results in the sharing of the equivalent of full costs of the mothers' allowances for a year before the deduction becomes fully effective. While the financial consequences may be insignificant if a few mothers' allowance cases are included in the general social assistance caseload, what may not have been contemplated was the effect that would be produced were the entire mother's allowance caseload merged with the general social assistance caseload within a short period, as has occurred in some provinces. If the remaining provinces follow this pattern,

unemployment assistance costs will increase very substantially in the year or so before the deduction becomes fully effective.

It has also been observed that in some instances the merger of the two caseloads is artificial in that the mothers' allowance type of case is preserved within the framework of general social assistance and sometimes singled out for special treatment. It is doubtful if this was intended by the legislation.

STRENGTHENING ADMINISTRATIVE CONTROL.—Ambiguities in the Act and resulting varying interpretations at the federal, provincial and municipal levels make the Department's administration of the unemployment assistance program unnecessarily difficult. Following consultation with officials of the Department, we have suggested that the Act could be more effectively administered were the Department to assemble its own internal audit group to take responsibility for the verification of unemployment assistance costs claimed by the provinces. Such a group, experienced not only in auditing techniques but in the special requirements of this legislation, should be able to provide the day to day liaison with the provincial and municipal governments that the Department requires to anticipate and prevent, or resolve, difficulties in administering the program so that substantial overpayments do not arise. This suggestion is in line with the general proposal advanced in paragraph 18 of this report regarding greater use of internal auditing staffs by departments.

85. *Hospital construction grants.* Grants to each province and territory are provided by an annual parliamentary appropriation and are subject to the terms and conditions set out in the Estimates Details and in the Health Grants Rules approved by the Governor in Council. The grants thus provided consist of the annual allocations, plus additional funds to cover the cost of completing projects begun in prior years but which had not been completed as planned.

Proposals for individual hospital construction projects are submitted by the provinces and, following approval by the Minister of National Health and Welfare, the relative grants are payable in four instalments as construction progresses.

Vote 260, as supplemented, provided \$19 million for the fiscal year 1961-62, the text also including "... authority, notwithstanding section 30 of the Financial Administration Act, to make commitments for the current year not to exceed a total amount of \$29,660,152". However, it is inherent in this program that commitments be entered into not only for the current fiscal year but also for future years, to the extent that hospital construction plans require. It therefore follows that if there is to be effective parliamentary control a limit should be imposed on commitments that may be entered into for future years as well as the current fiscal year. Actually, at March 31, 1962 such commitments outstanding amounted to approximately \$40 million.

Although an annual appropriation is intended to provide sufficient funds to discharge all commitments coming in course of payment during the year, it was noted that at the year-end, after the appropriation had been fully expended, unpaid claims for approved grants in respect of completed construction work were outstanding to a total

of \$6,000,000. Of this amount, \$4,000,000 due the Province of Quebec could not have been paid even if sufficient funds had been available in the appropriation because the allocation to this Province for the 1961-62 fiscal year had already been fully expended. This situation was the outcome of the practice of approving projects involving instalment payments in excess of the federal government's annual allocation of the grant.

86. *Irregular employment of doctors and dentists—Indian and Northern Health Services.* For some years the Civil Service Commission, on behalf of the Medical Services Directorate of the Department of National Health and Welfare, has been unable to recruit sufficient numbers of doctors and dentists to completely staff the Indian and Northern Health Services' hospitals and smaller establishments, which provide medical care to Indians and Eskimos. To fill the gap, unlicensed practitioners, frequently new Canadians, have been used by the Department on the understanding that they would seek to become licensed as soon as possible. Not being licensed to practice, these persons do not qualify for the positions of "medical officer" and "dental officer" and the Civil Service Commission will not appoint them to fill vacant positions in the Department's establishment. Accordingly the Department pays these unlicensed practitioners for their services on a fee basis at regular monthly rates, the payments being charged as "professional and special services". Although not having the legal status of employees, they are treated as such.

Attention was drawn to the need for corrective action in the 1956 report (paragraph 75). However, a review in 1960 revealed that the Department was still employing twelve unlicensed practitioners in the manner described above. In June 1961 the Department, the Civil Service Commission and the Treasury Board agreed that professionally qualified doctors and dentists who were not yet licensed but whom the Department desired to employ would be certified as technical officers by the Commission on the understanding that they would attain licensed status within a reasonable time and would be subject to replacement by fully licensed medical officers whenever these were available. This solution was never put into operation, and we observed that the services of six doctors and seven dentists, none of whom was appointed by the Civil Service Commission, were used and paid for on a monthly stipend basis as a charge to "professional and special services" during the year under review.

87. *Health grants.* Vote 259 authorizes General Health Grants to the provinces "upon the terms and in the amounts detailed in the Estimates and under terms and conditions approved by the Governor in Council", and the Estimates Details provide for "General Public Health Grant to assist in extending and improving health services". Section 10 of the Health Grants Rules, 1961, approved by the Governor in Council, dealing with this grant further provides that "from time to time a province may, as part of a satisfactory plan or program for the strengthening of health services, both provincial and local within such province, including the training of personnel and the conduct of surveys and studies, submit to the Minister a project together with a budget therefor".

Lack of precise definition of the terms "general public health" and "health services" has created a problem in the audit of payments charged to the General Public Health

Grant. The Department of National Health and Welfare has placed a broad interpretation on these terms and feels that "there are few restrictions in the scope of a program intended to provide assistance to the provinces to deal with the health of the people of Canada". In accordance with this attitude, the Department has in recent years approved a number of projects whose purpose is the assistance of research programs at universities through the provision of scientific and technical equipment and furnishings. These research programs may result in advances in the general body of medical knowledge and thus assist in ultimately improving the health of the population generally or of individuals afflicted with specific illnesses, but there is some doubt that they constitute an extension or improvement of provincial or local health services. The following "projects" will serve to point up the problem:

Project 609-9-112—Research equipment and fittings for the Medical Science Buildings, University of British Columbia: During 1960-61 a total of \$104,862 was authorized and spent on research equipment and fittings for the Medical Science Buildings at the University and an additional \$41,866 was expended during 1961-62 for the same purpose. The equipment and fittings purchased with General Public Health Grant funds are used in research projects financed by the University and other interested bodies but were not procured specifically to carry out General Health Grants projects.

Project 605-9-213—Electron microscopes for the University of Toronto: Two electron microscopes were purchased and installed in the Banting and Best Institutes, one in 1959-60 at a cost of \$28,785 and the other in 1961-62 for \$31,979. These microscopes are available to the research staffs of the Faculty of Medicine housed in the two institutes and used only to a limited extent in connection with specific General Health Grants projects undertaken at the University.

Attention is drawn to the matter because Parliament may not have intended the General Public Health Grant to have been given such wide application.

88. *Doubtful title to property in Newfoundland.* In paragraph 76 of last year's report reference was made to three Crown-owned residences in Newfoundland which were taken over by the provincial government when they were vacated temporarily by Customs and Excise officers in January 1957 and October 1958. As previously mentioned, the Department of National Revenue was of the opinion that these residences were the property of Canada in accordance with sections 33 and 34 of the Terms of Union, but the Province did not agree. The houses are still occupied by provincial officers.

89. *Release of goods under Customs Collector's permission.* Subsection (1) of section 22 of the Customs Act, R.S., c.58, reads as follows:

"Unless the goods are to be warehoused in the manner by this Act provided, the importer shall, at the time of entry pay down, or cause to be so paid, all duties upon all goods entered inwards; and the collector or other proper officer shall, immediately thereupon, grant his warrant for the unloading of such goods, and grant a permit for the conveyance of such goods further into Canada, if so required by the importer."

In addition, section 79 of the Act reads:

"No person shall make, nor shall any officer accept, any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way, unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods."

Notwithstanding these statutory directions, it has been the practice of the Department for many years to release perishable goods prior to the passing of a customs entry and payment of duty, providing the importer has posted a bond or security as a guarantee of payment of duty. The term "perishable goods" has gradually been extended and now includes a wide range of goods.

There seems little doubt that the practice being followed facilitates the clearing of goods through customs, and benefits both the Department and the importer. However, sections 22 and 79 of the Act quoted above appear specifically to prohibit what is being done and the Act should be amended if the practice is to be continued.

90. *Sales of goods unclaimed at Customs.* Section 23 of the Customs Act, R.S., c.58, requires that unclaimed goods

"shall be sold by public auction to the highest bidder, and the proceeds thereof shall be applied first to the payment of duties and charges, and the surplus, if any, after discharging the vessel's lien, or other charges for transportation, shall be paid to the owner of the goods or to his lawful agent; but if the goods cannot be sold for a sum sufficient to pay the duties and charges, if offered for sale for home consumption, or the charges, if offered for sale for exportation, such goods shall not be sold, but shall be destroyed."

Sometimes the addition of storage charges to the duties and taxes causes the total payable to be in excess of the value of the goods and in such cases the Department, instead of destroying the goods, has been following the practice of waiving all or part of the storage charges, in order that at least the duties may be recovered. The practice has undoubted merit from the revenue point of view but an amendment to section 23 of the Act seems desirable if it is to be continued.

91. *Duties and taxes on surplus United States government property sold in Canada.* By international agreement United States government property located in Canada which becomes surplus to requirements is disposed of by Crown Assets Disposal Corporation on behalf of the United States government. Much of this property came into Canada without payment of duties or taxes and therefore becomes subject to the applicable duties and taxes when sold in Canada. Because of the great variety of goods and materials, frequently located in remote areas, it is considered administratively impracticable to apply the customs tariff and the normal customs appraisal procedures to these sales. The Department of National Revenue accordingly annually establishes a composite rate (currently 15.25%) which is applied to the proceeds of all sales of the United States government

property by Crown Assets Disposal Corporation, the rate being based on the average rate of duty on all imports from the United States for the last completed year for which statistics are available.

The practice being followed seems to be a practical way to meet the problem but, as there is no statutory authority for the establishment of such a composite rate, even with the approval of the Governor in Council, authority should be provided by Parliament if the practice is to be continued.

92. *Determination of "sale price" for sales tax purposes.* In paragraph 59 of the 1960 report, reference was made to the requirement of section 30 of the Excise Tax Act that sales tax be calculated on the "sale price" of goods produced or imported into Canada, with certain stated exemptions, and it was noted that for some classes of goods sold under certain circumstances to other than wholesalers, the Department of National Revenue had authorized the manufacturers, by regulation, to compute the sales tax on less than the actual sale price. We expressed the opinion that specific authority by Parliament is required if the tax is to be computed on less than the sale price of the goods.

The Public Accounts Committee considered the matter during its sittings in 1961 and included in its Fifth Report of that year (paragraph 56) the recommendation "that the existing method of valuation be provided with statutory sanction".

No action has yet been taken to provide the statutory authority thus recommended. However, the Royal Commission on Taxation established on September 25, 1962 has terms of reference sufficiently broad to permit consideration of this matter.

93. *Reporting of remissions.* Section 22 of the Financial Administration Act empowers the Governor in Council, on the recommendation of the Treasury Board, "when-ever he considers it in the public interest", to remit any "tax, fee or penalty", and further provides, in subsection (8) that:

"A statement of each remission of one thousand dollars or more granted under this section shall be reported to the House of Commons in the Public Accounts."

Since this Act came into force in 1952 it has been the practice to report remissions with an annual total of \$1,000 or more in the form of a listing of names of recipients and annual amounts in the Public Accounts. This is a continuation of the practice previously followed by the Auditor General pursuant to the requirement contained in the Consolidated Revenue and Audit Act, 1931, that "the Auditor General shall call attention to every case in which . . . a refund or remission of any tax, duty or toll has been made on the authority of any Act of Parliament".

This was used as a precedent but we believe that subsection (8) of section 22 of the Financial Administration Act, quoted above, in calling for "a statement of each remission" (a "statement" was not called for by the earlier Act) contemplates the inclusion of a comment giving the particulars with respect to each remission—as is presently done in the cases of remissions to charitable, educational or other non-profit organizations.

We feel that explanatory statements are essential if Parliament is to have a clear understanding of the nature of the remissions.

An illustration of the inadequacy of the present method of listing remissions is given in the following paragraph.

94. *Remission of sales tax on oleomargarine.* At the time of the negotiations leading up to the entry of Newfoundland into Confederation in 1949, the following undertaking was given to the Newfoundland Delegation with respect to sales tax on oleomargarine:

"The Canadian Government will be prepared to submit to Parliament legislation designed to exempt oleomargarine sold in Newfoundland from the federal sales tax in the same manner as basic foodstuffs in other parts of Canada."

There has been no such legislation but the Governor in Council, on the recommendation of the Treasury Board, has followed the practice of remitting, under the authority provided by section 22 of the Financial Administration Act, the sales tax on all oleomargarine sold in the Province of Newfoundland.

The remissions thus granted, when in excess of \$1,000 in a year for each manufacturer, are included in the Public Accounts' listing of remissions (Public Accounts, Volume II, section 37), referred to in the preceding paragraph, under the names of the manufacturers concerned, but there are no statements to indicate that the remissions are in respect of tax on sales of oleomargarine in Newfoundland. In other words, there is no indication that the discretionary authority provided the Executive by the section referred to above has been used to render a tax, applicable elsewhere in Canada, completely inoperative in one province.

95. *Access to taxation collection files refused.* In December 1961 the Treasury Board approved the withholding of amounts payable to three taxpayers to be applied towards reduction of their indebtedness to the Crown with respect to income tax for the years 1954 to 1960. As such a step indicated a failure of normal collection procedure, we requested the relative Head Office collection files for audit examination. On the instructions of the Minister of National Revenue these files were not made available to us by the Taxation Division and we were informed that the Minister intended seeking the opinion of the Department of Justice with respect to our right of access to such files. Up to the date of this report we have not been advised regarding any such opinion although we directed enquiries to the Taxation Division on two subsequent occasions.

Our request for access to the files in question was based upon section 66 of the Financial Administration Act, subsection (1) of which reads as follows:

"Notwithstanding any Act, the Auditor General is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every department, and he is also entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties."

In paragraph 7 of this report, reference is made to the statutory responsibility resting on the Auditor General to ascertain that "all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue". It is for this reason that examination of collection files is an integral part of our audit in any department whose operations result in moneys accruing to the Crown.

96. *Questionable charge to Vote 306.* This Vote, which provided funds for the National Museum of Canada, was charged with an outlay of \$5,000 in connection with a preliminary investigation into proposed archaeological work associated with the salvage program being carried out under UNESCO leadership, for the preservation of artistic and historical treasures in that part of Egyptian and Sudanese Nubia which will be flooded by the lake formed by construction of the High Aswan Dam. Canada's proposed contribution would be an expedition, sponsored by the National Museum and a Canadian university, to search for relics of prehistoric man in the area.

As the duties, powers and functions listed in the Department of Northern Affairs and National Resources Act, 1953-54, c.4, restrict work in the archaeological field to Canada, the regularity of the charge made to Vote 306, in connection with the Nubian salvage program, seems questionable.

97. *Rural mail boxes.* For many years the Post Office Department has provided mail boxes to its rural patrons at a price of four dollars each. The cost of manufacture and distribution of these mail boxes has steadily increased, with the result that the Department now absorbs a considerable loss on each box sold. The cost of manufacture, which was \$2.85 in 1950, had increased to \$5.21 by 1961, and the addition of shipping, handling, storage and distribution charges would bring the total unit cost to approximately \$7.50. In 1961-62, 18,310 mail boxes were sold, resulting in a loss to the Department of approximately \$64,000.

98. *Departmental publication printed without requisite Treasury Board authority.* An Executive directive issued in 1951 permits the Queen's Printer to accept requisitions for printing publications estimated to cost in excess of \$5,000 only when such requisitions have been approved by the Treasury Board either specifically or as part of a publications program.

In accordance with the foregoing requirement, Treasury Board authority was sought in April 1961 for the printing of 3,000 copies, to be sold at \$5 per copy, of a publication entitled "Langage et Traduction" at an estimated cost of \$8,000. The publication was to consist of a compilation of notes on translation prepared by a senior officer of the Bureau for Translations of the Department of the Secretary of State. The Treasury Board did not approve of the proposal, concluding that it was not in the public interest to expend Crown funds on a publication of this nature.

Despite this injunction, however, the Department of Public Printing and Stationery proceeded to print 800 copies of the publication at a cost which, for the reduced quantity,

was expected to approximate \$4,000 but which, in fact, reached \$7,000. As the \$5,000 limit had been exceeded it was necessary to obtain ex post facto authority from Treasury Board for the printing of the publication and this was given on March 29, 1962.

99. *Payment of maintenance expenses of Civil Service Recreational Association Centre.* The policy that grants or other forms of financial assistance to non-governmental organizations are made only from parliamentary appropriations specifically provided or clearly intended for such purposes is one of long standing. Attention is therefore drawn to the following instance where the Department of Public Works extended financial assistance to the Civil Service Recreational Association of Ottawa although neither the text of the Vote involved nor the related Details of Services contained any reference to the assistance.

The Association, which was incorporated in 1941 for the purpose of providing athletic and other recreational facilities for its membership, constructed a Centre, which was opened officially in October 1959 and acts as the operating hub of its activities. In February 1961 the Department of Public Works was authorized by the Treasury Board to assume the cost of maintenance of the Centre, effective April 1, 1961, and during the ensuing year costs of approximately \$25,000 were incurred for lighting, heating, water, snow removal, and repairs and upkeep, and charged to the appropriation for "Maintenance and Operation of Public Buildings and Grounds" (Vote 344).

100. *Route facility fees receivable from airlines.* Reference is made to the comments on this subject contained in paragraph 79 of last year's report where it was mentioned that ten airlines were indebted to the Department of Transport to a total of \$1,284,000.

During the year under review, resistance to the payment of the route facility fee continued to be encountered by the Department, with most of the airlines which had originally paid the fee having stopped doing so. At March 31, 1962 the records of the Department showed that 17 airlines owed amounts totalling \$3,239,000. Legal action has been instituted against two of the major airlines involved.

101. *Expenditure incurred without Treasury Board approval.* The Department of Transport obtained Treasury Board approval to enter into a contract for the supply and installation of furnishings for the public areas of the terminal building at the Montreal Airport at a cost of \$475,000. The accepted tender included \$35,000 for a work of sculpture to be located in the lobby of the building. When provision for this work was cancelled the Department used the resulting saving to order extras in the form of additional drapes and other furnishings not provided for in the original specifications. In doing so it took the stand that, because the total cost incurred was within the financial bounds set by the original Treasury Board authority, it was unnecessary to seek the Board's approval for the procurement of the extras.

On communicating with the Secretary of the Treasury Board, we were informed that "the deletion of the work of sculpture involved a significant change in scope of the proposed furnishing program and not a substitution of one item for a comparable item",

and that the saving arising from the deletion of the work of sculpture should not have been used for the extra items. The Department has advised us that it does not share this view.

102. *Inadequate recording of subsidy in the accounts.* In June 1959 the Department of Transport entered into a contract for the construction of a vehicular and passenger ferry at an estimated cost of \$1,113,578 for use, by charter, on the Bell Island-Portugal Cove, Newfoundland ferry service. The final cost of the vessel which was completed in the spring of 1960 and commenced operations in August of that year has not yet been determined, although costs of \$1,158,000 were recorded to March 31, 1962. With the approval of the Governor in Council the vessel, named the "John Guy", was chartered under an agreement dated September 8, 1960 to the Newfoundland Transportation Company Limited, operators of the Bell Island-Portugal Cove ferry service, for one year to August 15, 1961, and the agreement was subsequently extended for a further year and from year to year thereafter.

The rate of charter hire payable under the agreement is calculated as follows:

- (i) depreciation in accordance with the straight line method of 4% per annum based upon the actual cost of construction of the vessel as determined by the Minister, and
- (ii) interest at $5\frac{3}{4}\%$ per annum upon the unrecovered cost of the construction of the vessel as determined by the Minister.

The charter hire fee payable, calculated on an interim cost for the vessel of \$1,200,000, for the year ended July 31, 1961 amounted to \$117,000 and for the period August 1, 1961 to March 31, 1962 it was \$75,354, or a total of \$192,354 to March 31, 1962.

On July 27, 1961 the Treasury Board approved the payment of subsidies of up to \$274,414 to the Newfoundland Transportation Company Limited for the period from August 1, 1960 to March 31, 1962, and at the same time waived payment of the charter hire fees of \$192,354 for the period. The amount actually paid by the Canadian Maritime Commission under this authority was \$274,385, and this amount was recorded as a charge to the appropriation for "Steamship Subventions for Coastal Services, as detailed in the Estimates" (Vote 450).

In the circumstances described it would have been more appropriate from the accounting point of view to have shown a gross subsidy of \$466,739 as a charge to the appropriation, and to have recorded the charter hire fee of \$192,354 as revenue. Moreover, such a presentation would have been consistent with that used in the Public Accounts in relation to the "Lord Selkirk" which has been chartered for several years to Northumberland Ferries Limited for the Prince Edward Island-Nova Scotia ferry service.

103. *War Veterans Allowances.* The War Veterans Allowance Act, R. S., c.340, sets out the rates of allowances payable to veterans, widows and orphans eligible for assistance and prescribes that allowances paid, together with other income of the recipient, shall not exceed established ceilings. It also provides that applicants may not qualify for an allowance if they own personal property in excess of \$1,250 if eligible for single rates,

or \$2,500 if eligible for married rates. The Act empowers the Minister, with the approval of the Governor in Council, to make regulations which among other things define "income", "casual earnings" and "personal property" for purposes of the Act. Attention is now drawn to two anomalies in the application of this legislation:

1. "Personal property" as defined in the regulations includes cash in hand or in bank, negotiable bonds and marketable securities, but mortgages and agreements for sale are not mentioned. As a result, the allowance is made available to some whose sizeable holdings in mortgages and agreements for sale would preclude their qualifying for assistance were their assets in another form, for example negotiable bonds or securities. In an extreme case, an allowance was awarded an applicant who sold his fruit farm for \$30,000, taking \$9,000 cash (most of which was reinvested in a new home) and retaining a \$21,000 mortgage, repayable as to principal and interest at the rate of \$1,200 per annum.
2. The regulations prescribe that, for one year from the date of sale or until any of the money is used for a purpose other than to purchase another residence, whichever is earlier, the proceeds from the sale of a recipient's or applicant's residence up to an amount of \$9,000 is not personal property, and over that amount is income in the amount of 5% of the excess. The purpose is to give the recipient or applicant who sells his home a reasonable opportunity to buy a new home without having his allowance cancelled or denied because of excessive personal property. In some cases, however, the purchase of a new residence takes place within a comparatively short period and the recipient is, therefore, while in possession of residual cash and personal property in excess of the maximum permitted under the Act, continued on allowances until the anniversary date of the sale of the former residence.

The War Veterans Allowance Act and the supporting regulations provide for penalties by way of fine or imprisonment or both to any person who, for the purpose of obtaining an allowance, knowingly makes a false or misleading statement or fails to disclose any material fact or who, subsequent to becoming a recipient, fails to report immediately any pertinent information which might have a bearing upon the amount of the award. On the basis of a test examination of files during the year, 57 cases, most involving undisclosed income, in which there were false statements or failure to disclose material facts, were referred to the War Veterans Allowance Board. In one case the recipient, on two occasions, had failed to disclose material facts: on the first occasion the allowance was discontinued and an overpayment of \$1,077 established in 1954; and on the second occasion an overpayment of \$4,289 was established when it was disclosed in the audit that the veteran's wife had been employed almost continuously since shortly after the veteran again came on allowance in July 1957. In another case, a single veteran was granted the allowance in November 1961, along with a continuing monthly grant from the Assistance Fund, upon his statement that he was not working, that he had no prospects of employment and only \$50 in assets. In April 1962 the allowance was discontinued when the Department discovered that the veteran was employed as a full-time federal civil servant with a salary of \$6,540 and had been so at time of application—in fact since April 1960.

Following the practice of recent years, no legal action was taken to invoke the penalties provided by the Act in any of the cases noted because it was considered that such

action was uneconomic and accomplished little. Unless the Act is amended to provide heavier penalties which the Board is prepared to enforce, deliberate deceptions of this type can be expected to continue.

The legislation establishing war veterans allowances was predicated on the assumption that war veterans pre-age the general civilian population by some ten years. Thus, aside from providing assistance to those who because of physical or mental disabilities or economic hardships are unable to maintain themselves, its main purpose was to provide financial assistance to veterans of limited means at age 60 rather than at 70, the eligible age for an old age pension. In consequence, recipients on becoming eligible for the old age pension had their war veterans allowances adjusted downwards so that total annual income remained within the ceiling prescribed in the War Veterans Allowance Act.

There was a departure from this long-established principle when an amendment to the War Veterans Allowance Regulations, approved by the Governor in Council, directed that from February 1, 1962, \$10 of the old age pension be considered as exempt income for purposes of the War Veterans Allowance Act. This action was taken notwithstanding the fact that by amendment to the Act, assented to on June 22, 1961, the maximum monthly allowances and the annual income ceilings of recipients had been increased by 20% effective June 1, 1961. Consequently, this exemption of \$10 of old age pension had the effect of augmenting the income of a group of war veterans allowance recipients whose incomes had by statute been adjusted substantially just eight months previously.

104. *Veterans hospitals and institutions.* Hospitals and institutions operated by the Department of Veterans Affairs, originally provided to take care of veterans requiring treatment for war service disabilities, are at present being occupied to a considerable extent by domiciliary care cases and war veterans allowance recipients. The latter, who are provided treatment for all conditions, service-induced or otherwise, are for the most part insured under the various provincial hospital insurance plans. During 1961-62 domiciliary care patients and war veterans allowance recipients accounted for 40% and 41%, respectively, of all patient days in departmental hospitals and institutions whereas disability pensioners accounted for only 17%. During the year the average per diem cost of maintaining patients in active treatment hospitals where 38% of the occupied beds were taken up by domiciliary care cases was \$18.76 compared with \$9.63 in non-active treatment centres where occupancy is predominantly by domiciliary care cases.

The cost of operating departmental hospitals and institutions for the fiscal years 1956-57 and 1961-62 was \$34,596,693 and \$46,771,192, which, based on total in-patient days of 2,750,651 and 2,574,509, results in costs per in-patient day of \$12.58 and \$18.17—an increase during the five year period of 44.4%. In addition, capital expenditures, mainly for improvements and equipment, averaged approximately \$4.5 million per year during this period.

The introduction of provincial hospital insurance plans under which war veterans allowance recipients are insured, the declining numbers of pensionable disability cases being cared for in departmental hospitals, the rising cost of operating the hospitals and the increasing use of expensive active treatment facilities for housing domiciliary care

cases, all indicate that a reappraisal of the Department's role in the operation of hospitals would be desirable. We understand that this has been the subject of a detailed study carried out by the Royal Commission on Government Organization, although no report or recommendations have yet been made.

105. *Disposal of Veterans' Pavilion and surplus equipment, Ottawa.* Following the construction of the Defence Medical Centre in Ottawa, the Department of Veterans Affairs no longer required the Veterans' Pavilion which had been constructed some twenty years ago on the grounds of the Ottawa Civic Hospital at a cost, including equipment, of approximately \$330,000.

The Pavilion was built pursuant to an agreement between the Department of Veterans Affairs and the Hospital Trustees, approved by the Governor in Council in May 1942. This agreement was later replaced by a new agreement effective April 1, 1948, section 7 of which reads:

"This agreement shall continue in full force and effect so long as may reasonably be required by the Department, at the end of which time, or at such intervening date as may be agreed upon between the said parties, the Department shall hand over to the Trustees the said pavilion and such equipment as will not be further needed by the Department, at an independent appraisal value, should the Trustees so desire."

When approached by the Department in 1961 the Trustees expressed their unwillingness to purchase the Pavilion at a price based on an independent appraisal (or, indeed, at any price), and the Department eventually agreed to turn over the Pavilion, including surplus equipment, to them at a nominal value of \$1. As the transfer was effected without referral to Crown Assets Disposal Corporation or approval by the Governor in Council, there is doubt as to its legality.

106. *Employment of part-time doctors by Department of Veterans Affairs.* Department of Veterans Affairs hospitals are staffed partially by full-time medical personnel who are civil servants but to a considerably greater extent by medical practitioners, retained on a part-time negotiated fee basis, whose terms of employment have never been clearly defined. The part-time doctors have always insisted on their right to bill the patients they treat who have been admitted to the hospitals on a paying basis. This has caused a number of administrative problems, a major one being the status of the funds derived from the billing of these paying patients. The Department, while permitting the doctors to make these billings, has encouraged them to use the proceeds for purposes that will benefit the hospitals in which they are employed.

The part-time doctors hold the view that these receipts are not public moneys and the Department sees some justification for this view in that (i) when their employment on the negotiated fee basis was first instituted, paying patients were almost unknown (it was only as the treatment regulations were broadened and the volume of paying patients became larger that the problem of fees for medical services arose); and (ii) the services which they provide in return for the fee paid to them by the Department should be only in respect of patients for whom the Department is responsible.

The Department now proposes that the best solution to the problem is to create a special fund under its control to which will be credited the proceeds from billings for services rendered paying patients by the part-time and also the full-time doctors. The proceeds would be used for purposes specified by the Department, including the purchase of books for the hospital library and payment of expenses incurred by the hospital staff while attending scientific or similar meetings of benefit to the hospital.

The Audit Office takes the view, however, that the funds derived from the treatment of paying patients are public moneys because (a) full-time doctors are public servants, (b) there is no evidence that the annual negotiated fee for part-time doctors is limited to services rendered to patients entitled to free treatment, and (c) moneys collected by these doctors arise from services undertaken in departmental hospitals using departmental facilities. We do not, therefore, consider that the Department's proposal will meet the requirements of the Financial Administration Act regarding the disposition of public moneys.

We directed the matter to the attention of the Treasury Board and the general problem and the Department's proposed solution are presently under study by the Board.

107. *Awards under the Pension Act.* Paragraph 72 of the 1960 report referred to (1) the audit difficulty in determining whether or not certain payments made under the Pension Act, particularly those in respect of discretionary and compassionate awards, conformed to the authorizing provisions, (2) certain administrative practices which it was thought warranted parliamentary attention, and (3) apparent inconsistencies in the Act.

The Standing Committee on Public Accounts after studying these comments recommended in its Fifth Report, 1961 (paragraph 62):

- (a) that in any case in which a pension overpayment has resulted due to failure of the pensioner to disclose income, the amount of the overpayment should be made a matter of record in the accounts, and deleted therefrom only with appropriate statutory authority;
- (b) that in determining the amount of pension to be awarded dependent parents, the Commission should recognize the responsibility of the surviving children to assist their parents, and take into consideration their ability to do so;
- (c) that, having regard for subsection (2) of section 40 of the Pension Act, consideration should be given by the Canadian Pension Commission to the legality of cases where, as mentioned in the final subparagraph of paragraph 72 of the Auditor General's report, one death can result in payments being made concurrently to a widow (under section 37), children (under section 26) and parents (under section 38).

After considering these recommendations the Chairman of the Pension Commission advised the Audit Office concerning recommendation (a) above, that when the Commission rules there is an overpayment this is made a matter of record in the accounts and, if noncollectable, the amount is deleted therefrom only with appropriate statutory authority.

However, no action has been taken to record and collect overpayments in the type of case referred to in the 1960 report (paragraph 72) as follows:

Since the amount awarded to an applicant in a dependent condition is based upon the additional income he requires to maintain himself, it follows that if the applicant had failed to disclose income, this would result in an overpayment. However, in a number of instances in which undisclosed income was noted and drawn to the attention of the Commission, the pension was simply adjusted currently and no overpayment was considered as having occurred.

With respect to recommendation (b), the pertinent section of the Act (section 38(6)) was amended in 1961 to provide that the Commission might deem any children residing with the "dependent parent" to be contributing to his or her support not less than ten dollars a month, but the Commission feels that there is no obligation for them to take into account the ability of other children to assist and no cases were observed where this was done.

Concerning recommendation (c), the Commission reports that it has carefully considered the legality of cases where one death results in more than one pension and is of the opinion that such payments are legal and in accord with the Act. It pointed out that the present section 40 was contained in the original Act of 1919 and has continued unchanged since then although certain other sections, such as 38(2), were inserted to make provision for classes which were otherwise excluded. The Commission is of the opinion that, as the Act provides definite authority for these pensions, the general directions of section 40 could not be considered to fetter sections 26, 37 or 38. It would seem that consideration should be given to amending the legislation with a view to eliminating these inconsistencies.

108. *Educational leave costs.* The practice of granting educational leave to employees, without special funds having been provided by Parliament for the purpose, was referred to in last year's report (paragraph 82).

It is again suggested that educational leave costs, including salaries, non-accountable allowances in lieu of salary, living allowances, tuition fees, book allowances and travelling expenses of employees while on educational leave should be charged to an appropriation specially provided for that purpose. The inclusion of such costs—the salary portion of which approximated \$265,000 in the year under review—with the salaries and expenses of employees on duty in the various departments is not conducive to effective parliamentary control over the expenditure.

109. *Cost of gasoline used in departmental motor vehicles at Ottawa.* As noted in last year's report (paragraph 83) the feasibility of supplying gasoline and oil for all government vehicles in Ottawa from central supply points had been referred to the Government Motor Vehicle Committee for consideration.

As the result of a survey completed by the Committee in January 1962, it was estimated that the annual cost of gasoline purchased for Crown-owned vehicles in the Ottawa area amounted to \$73,700, of which \$33,276 was for gasoline obtained from commercially operated service stations. On this basis, it was estimated that the cost would have been reduced by \$14,000 if all gallonage had been supplied by Crown-operated facilities.

On September 28, 1962 we were informed that the study of this matter by the Government Motor Vehicle Committee was almost complete and that a presentation was to be made to the Treasury Board in the near future.

110. *Cost of advertising.* In 1961-62 the total cost of advertising passed by the Advertising Unit of the Comptroller of the Treasury's Office, including agency and non-agency advertising, was in excess of \$5,000,000.

Prior to 1954 there was an arrangement with the Canadian Daily Newspapers Association whereby government advertising enjoyed a special rate, but this arrangement was allowed to lapse. During the course of the audit we noted that a publisher had drawn the attention of a government department to the advantage of entering into a contract for classified advertising, pointing out that there was a difference of twelve cents per line between the contract rate and the casual rate—from 34 cents to 46 cents. The minimum annual usage to qualify for the contract rate in this case would be 2,000 count lines whereas the department had used 2,624 lines of classified advertising in the previous two months.

We suggested to the Department of Finance on April 13, 1962 that the field of government advertising might usefully be reviewed in the interests of greater economy. The Department replied on September 17, 1962 that the Treasury Board several months earlier (on May 23, 1962) had approved our suggestion in principle and that officers of the Treasury Board were currently looking into the matter.

111. *Losses reported in the Public Accounts.* Section 98 of the Financial Administration Act directs that "every payment out of the Public Officers Guarantee Account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the Public Accounts".

The statements of losses included in the Public Accounts for 1961-62 were examined and it was ascertained that every loss during the year, which had been observed in the audit as being of a nature requiring to be reported in the Public Accounts in accordance with the foregoing direction, had been included in the listings. Losses in departments other than the Post Office numbered 18 and amounted to \$60,588. Of these, 12 involving \$9,829 were recovered in full during the year, and partial recoveries of \$8,007 were obtained in other cases. Losses suffered by the Post Office Department numbered 97 and amounted to \$63,536. Of these, 68 to a total of \$32,469 were recovered in full and partial recoveries totalled \$8,505.

112. *Over-commitment of appropriations for the purpose of facilitating winter works programs.* During the latter part of 1961 the Treasury Board considered detailed proposals for winter works programs submitted by a number of departments (which would be additional to the main winter works program provided for by Vote 614 under the Department of Labour). Approval was given to numerous projects which were recognized by the Board as useful and acceptable supplementary elements of normal departmental programs, which would involve substantial wage costs in relation to their total costs and which could be mounted quickly in order to generate employment during the winter months, particularly in areas of severe unemployment.

The Board was aware of the fact that in some instances existing appropriations would be inadequate to finance approved programs, and realized also that section 30 of the Financial Administration Act was a statutory obstruction to proceeding expeditiously with the projects. This section provides that no contract shall be entered into or have any force or effect unless the Comptroller of the Treasury certifies that "there is a sufficient unencumbered balance available out of an appropriation or out of an item included in estimates before the House of Commons to discharge any commitments under such contract that would, under the provisions thereof, come in course of payment during the fiscal year in which the contract was entered into".

With a view to avoiding delay, the Comptroller was asked by the Board to record commitments on a provisional basis beyond the amounts provided by existing appropriations "until such time as the additional provision is appropriated". Concurrently the Board provided lists of "allowable over-commitments" to the departments concerned, informing them that: "the Comptroller of the Treasury has been asked to allow over-commitment of your existing appropriations on the understanding that the Board is willing to submit Supplementary Estimates up to those amounts to Parliament later in the year". This was regarded by the Comptroller as authorization to departments to enter into contracts in amounts in excess of the balances available in the particular appropriations without the certificates required by section 30 of the Act.

Notwithstanding the importance of facilitating winter works programs—or any other urgent Executive plan—the Audit Office view is that over-commitment of appropriations in the manner described above is contrary to what is contemplated by the Financial Administration Act.

113. *Unpaid accounts carried forward to new fiscal year.* In last year's report (paragraph 84) attention was directed to instances where accounts remained unpaid at the year-end and were required to be recorded as expenditure in the succeeding fiscal year because Parliament had not been asked for supplementary appropriations to provide the additional funds required, although it had become apparent before the year-end that existing appropriations would be inadequate.

No instances were noted this year where there had been a failure to seek supplementary parliamentary appropriations in such circumstances. However, as in previous years, there were cases where amounts provided by main and supplementary appropriations fell short of requirements and unpaid accounts had to be carried forward to the succeeding fiscal year. An example is the appropriation for "Construction or Acquisition of Buildings, Works, Land and Major Equipment" for the Royal Canadian Air Force (Vote 240, as supplemented, \$267 million) which was insufficient to meet all accounts that came in course of payment in the fiscal year, and accounts totalling approximately \$12 million were carried forward and charged as 1962-63 expenditure.

114. *Identical tenders.* In paragraph 77 of last year's report it was brought to notice that the Department of Public Works had called for tenders for the supply of incandescent lamps and fluorescent tubes to meet the needs of various federal buildings throughout Canada during the fiscal year 1961-62 and that, based on the application of unit prices to estimated quantities, identical bids of \$301,191.16 were received from the three companies submitting the lowest complete tenders. This was the third instance of identical bids for lamps during the preceding four years, and the Treasury Board authorized placing the order with a company other than the one which had held the contract during the two previous fiscal years.

During the year under review the Department of Public Works called for tenders for the supply of incandescent lamps and fluorescent tubes which it was estimated would be required during the two year period commencing April 1, 1962. It was hoped that the longer term contract might result in a more competitive set of quotations and in one firm quoting lower than the others. When the tenders were opened, it was found that the same three firms which had submitted the identical low bids for 1961-62 had again submitted identical low bids in the amount of \$645,264.16. After placing the facts before the Combines Branch of the Department of Justice, as had been done in previous years, the Department of Public Works obtained Treasury Board authority to award the contract to the company which offered products manufactured wholly by itself, which offered as part of its tender a bonus type lamp and which had not had the order in the preceding year.

During the course of our examination of departmental records during the past year, we noted, in addition to the above "repeater" case involving incandescent lamps and fluorescent tubes, approximately 100 cases of identical tenders having been received by government departments. In practically all of the instances, which covered a number of product areas, details were furnished by the departments concerned to the Combines Branch.

We are informed that the Combines Branch is continuing its practice of scrutinizing and accumulating such evidence in the event that the information "may ultimately become relevant and useful should evidence of collusive practices be disclosed". In the course of reviewing our findings regarding government purchases, we have suggested to officers of the Branch that it might be desirable were all identical tenders received by government departments, Crown corporations and other agencies listed

each year by the Combines Branch in the annual report made by the Director of Investigation and Research to the Minister of Justice under section 44 of the Combines Investigation Act.

115. *Non-productive payments.* Paragraph 71 of the Fifth Report, 1961, of the Public Accounts Committee reads:

The Committee gave consideration to the extent to which it felt it would wish to be informed regarding non-productive payments in future. Although it recognized the difficulty that would be involved in defining a 'non-productive payment', it came to the conclusion that information regarding such payments would be of value, and it accordingly requests the Auditor General, in his future annual reports to the House of Commons, to include listings of any such payments that might have come to his notice in the course of his audit.

In accordance with the request contained in the foregoing observation, a listing is given below of the payments that, in the absence of a precise definition, might be regarded as non-productive in character which were observed in the course of the audit of departmental expenditures for the fiscal year 1961-62.

1. **Payment for loss of revenue by pipe line company, Cold Lake, Alta.** In May 1959 the Department of National Defence entered into an agreement with a pipe line company to supply natural gas to the Air Force Station at Cold Lake on an annual 'take or pay' minimum consumption basis, to take effect on November 1, 1960, when an additional boiler which was in the planning stage would be installed. A contract for the manufacture of the boiler was awarded in September 1959, and foundation drawings and shop drawings were made available in due course to a consultant firm which was to proceed as quickly as possible to provide plans and specifications in order that a contract for the construction of an extension to the central heating plant to house the new boiler could be awarded, but no date was specified by which the plans and specifications were actually to be produced by the consultant. Normally the construction work would have been carried out in the fall of 1959 and the boiler would have been installed and in operation in the fall of 1960. Due mainly to delays on the part of the consultant in producing the plans and specifications, the construction contract could not be awarded until September 1960 and the new boiler did not become operational until the middle of July 1961. Because of the failure of the Crown to have the additional boiler capacity ready on the agreed date and its inability to take the quantity of gas made available by the pipe line company, the latter suffered a loss of revenue which the Crown remedied in part by an *ex gratia* payment of \$20,000.
2. **Printing of Official History of the Canadian Army, French Edition.** In October 1956 the Department of Public Printing and Stationery, on behalf of the Department of National Defence, awarded contracts for the printing of 3,000 copies each of the French edition of Volumes I and II of the Official History of the Canadian Army in the Second World War, a translation of the earlier English edition. Mainly because of delays in processing, including numerous changes in translation, delivery of Volume I was not made until April 1959, while Volume II did not become available until October 1960. Firm prices were not established with the contractor and during the four years which elapsed between the initial stages of composition and final publication there were increases in printing, labour and material costs.

As a result, when final payment was made in 1961-62, publication of the two volumes cost \$26,060 more than the original estimate of \$28,983.

3. **Exterior painting of housing units, Camp Shilo, Man.** In July 1959 a contract in the amount of \$24,362 was awarded by Defence Construction (1951) Limited for the exterior painting of 149 Permanent Married Quarters at Camp Shilo, under the general supervision of the Army Works Service. The contract, which was to have been completed in the fall of 1959, was not finished until a year later and substantial losses were incurred by the contractor, who claimed that (i) the selected colour scheme was not in accordance with the departmental standard practice; (ii) houses previously painted with dark colours were required to be painted with light colours, thus necessitating additional undercoating; and (iii) approximately 90% of all window sash was required to be painted a different colour from that used for the window frames, involving additional work. For its part, the Army Works Service claimed that the losses were largely attributable to factors for which the contractor was responsible, but the contractor was nevertheless paid an additional \$11,371 in settlement of his claim during the fiscal year.
4. **Construction of outside services, Royal Military College, Kingston, Ont.** A contract for electrical distribution systems, sewer connections, roads, curbs and miscellaneous outside services at the Royal Military College was awarded in April 1959 by Defence Construction (1951) Limited, in the amount of \$488,671.
The contractor planned to install the electrical distribution systems and sewer connections concurrently, thereby employing the same excavation equipment for both these phases of the work. However, at an early stage he was requested to rearrange his work schedule to make an immediate start on the electrical distribution work in the sports field area, one-half mile from his planned starting point. This required the use of additional excavation equipment and additional costs were thus incurred. The contractor was also requested to reschedule certain other phases of the work and to postpone the use of certain equipment in order not to interfere with the academic timetable or disrupt scheduled ceremonial functions of the College. Further delay was occasioned by changes in the design of the electrical distribution services and transformer vaults.
As a result of the rescheduling of work and the delays mentioned above, the contractor incurred further costs and he was paid an additional \$66,591 during the fiscal year.
5. **Construction of reservoir, Point Edward Naval Base, Sydney, N.S.** In August 1959 a contract for \$328,000 was awarded by Defence Construction (1951) Limited for the construction of a reinforced concrete reservoir at the Point Edward Naval Base. The contractor ordered equipment and had it shipped to the site for incorporation into the project, but the Crown company's engineer, in interpreting the contract specifications, demanded the use of a type of equipment other than that purchased by the contractor. The contractor thereupon took steps to replace the equipment but there was a delay of two months in doing so and this extended the work until winter conditions had to be faced.
The contractor claimed for the additional costs thus occasioned and was paid \$4,339 during the fiscal year under review.
6. **Construction of aircraft hangar, Bagotville, P.Q.** The construction of an aircraft hangar at the Air Force station at Bagotville involved a sub-contract for the fabrication and erection of structural steel in the amount of \$168,450. This sub-contract was awarded in January 1956 with the intention that steel erection would be completed by the end of August of that year. Defence Construction (1951) Limited had undertaken

to supply working drawings but due to the large number of modifications to the standard design required by the Air Force, the task of preparing the drawings was given to the contractor. In the meantime, some two and a half months elapsed before fabrication of the steel was proceeded with, the result being that steel erection did not commence until October 1956 and was not completed until May 1957.

The delaying of steel erection from the summer of 1956 to the winter of 1956-57 caused the work on the project as a whole to be prolonged into the winter and, as a result the prime contractor claimed additional costs of \$89,552. The Crown accepted responsibility for part of the delay and made settlement in the amount of \$23,822 in 1961-62.

7. **Construction of aircraft hangar, Summerside, P.E.I.** In July 1961 Defence Construction (1951) Limited awarded a contract for an extension to a cantilever hangar at Summerside, requested by the Department of National Defence in April 1961. In anticipation of this, a contract for \$295,340 had been awarded in March 1961 for the fabrication and erection of structural steel, and this contract stipulated that fabrication commence June 1, 1961 and that erection commence August 24, 1961 and be completed by November 30, 1961.

Due to the delay in the awarding of the main construction contract (July 7, 1961) foundations which should have been in place ready for the erection of steel by August 24, 1961 were not finished until December 1961. As a result, steel that was scheduled to be erected during the fall was erected under winter conditions with the consequence that additional costs of \$8,250 were incurred by the contractor, and he was reimbursed accordingly.

8. **Installation of radio equipment, Air Force Station, Trenton, Ont.** In September 1959 a firm price contract of \$29,960 was awarded by the Department of Defence Production for the ground-to-air radio facilities at the Air Force Station at Trenton, the installation to be in accordance with Air Material Command specifications and installation directives. However, at the commencement of the work it became apparent that the drawings were inaccurate and that there were errors and omissions in the specifications.

The contractor submitted a claim for the extra work resulting from these conditions and was paid a sum of approximately \$30,000 over and above the firm price mentioned above.

9. **Operational tests on divers' recompression chambers.** In February 1959 a contract in the amount of \$58,042 was awarded by the Department of Defence Production on behalf of the Department of National Defence for two recompression chambers, four air-cooled compressors and other components, along with shop trials of the equipment at firm hourly rates. On receipt of some of the units from a sub-supplier, the contractor advised the two Departments that he was unable to proceed with the shop trials due to the fact that certain equipment necessary for them had not been included in the order and was not readily available. Three months later, after requisite approval had been obtained, the equipment was ordered with a delivery date of 90 days following receipt of the order. In the meantime, the contractor, in need of working space, was forced to dismantle the compressors, store them outside his shop and then re-assemble them for the shop trials.

The file indicates that had the equipment referred to been included in the order, it would have been supplied at no charge and the shop trials could have proceeded without delay; as it was, the contractor's additional costs of \$2,686 were paid during the fiscal year under review.

10. **Security seals.** After considerable research and testing by the Royal Canadian Mounted Police in collaboration with a private firm, a dry seal was developed to replace the sealing wax method for securing paper envelopes containing classified National Defence documents and correspondence. The seal was approved by the departmental security committee and in November 1960 an order was placed with the firm for 500,000 pairs of serially numbered seals to cost \$31,130, and in due course the seals were produced according to specifications and delivered to the Department.

Up to the time of our examination none of the seals had been used because, for a time, it appeared that two pairs instead of one would be needed to provide adequate security, and subsequently one Service declined to put the seals into use. Consideration is currently being given to the need for seals of this type in the Public Service generally.

11. **Cost of expropriation of property for Trans-Canada Highway.** In order to acquire a right of way for the Trans-Canada Highway in Banff National Park in 1955, the Department of Northern Affairs took expropriation proceedings in connection with a number of properties in the former townsite of Anthracite. Settlements were made with 7 of the 12 former owners, a total of \$1,950 being paid for their land. Before agreements had been reached with the others, it became apparent that the expropriation proceedings had been invalid as they should have been taken under authority of the National Parks Act, R.S., c. 189, rather than the Expropriation Act, R.S., c. 106. The necessary concurrence of the Governor in Council to expropriate under the National Parks Act was received in 1958 but the registrar of land titles at Calgary declined to act on the grounds that the title to the land had been vested in the Crown since 1955. In order to resolve the problem, it was necessary for the Department of Justice to seek a court order requiring the second registration, which was obtained through the Supreme Court of Alberta in 1961.

At the suggestion of the Department of Justice, all lands involved were then re-appraised, with the result that an additional \$5,975 was paid in 1961-62 for the property acquired from those who had already accepted settlement in 1955.

12. **Construction of Surveys and Mapping Building, Ottawa.** In April 1958 a contract was awarded by the Department of Public Works for the construction of a Surveys and Mapping Building in Ottawa at a fixed price of \$7,840,000 for the Department of Mines and Technical Surveys. In February 1959 the contractor was instructed to suspend work in the south wing area of the building due to the lack of detailed information regarding certain mechanical equipment that had been ordered by the Department of Mines and Technical Surveys, for which the contractor had to supply mechanical and electrical services. In the following September work was also stopped in the north wing area as changes to permit the addition of press rooms were contemplated. The final plans for the two wings were not confirmed until November 1959 and the contractor was then ordered to proceed.

The contractor was paid \$141,392 in March 1962 to cover additional costs incurred as a result of the delay caused by the work stoppages referred to above.

13. **Construction of breakwater, New Haven, N.S.** In September 1958 the Department of Public Works was authorized to enter into a contract for the construction of a breakwater at New Haven. The estimated cost of \$125,050 was based largely on fixed unit prices for estimated quantities of quarry-run rock core and protective armour

stone, and the specifications stated that suitable stone for the purpose could be obtained from a Crown-owned quarry adjacent to the site.

Although the contractor tried various quarrying methods, he was unable to obtain the required armour stone from the quarry. In April 1959, after departmental officers had confirmed that the contract could not be performed as specified—and after efforts had failed to persuade the contractor to use armour stone to be extracted from nearby privately-owned quarries, except on a cost-plus basis—the contract was terminated by the Department. The contractor was reimbursed \$121,399, of which \$94,920 was paid during the year under review, for direct costs incurred by him in his largely abortive effort, plus an allowance for overhead.

In May 1960 a contract was entered into with another company to complete construction of the breakwater (slightly larger than originally specified) and it was completed at a cost of \$134,854. The required armour stone was obtained from two privately-owned quarries within a mile of the work.

After making allowance for the value of the core stone which was still in position when the second contract was undertaken, and work which had been performed in the construction of an access road, it was estimated that the total outlay of \$256,253 included a non-productive cost of approximately \$95,000, sustained because the first contractor was misled with respect to the availability of armour stone in the specified quarry.

14. **New wharf and shed facilities, Corner Brook, Nfld.** The Canadian National Railways requested that new wharf and shed facilities be provided at Corner Brook to service an enlarged coastal vessel fleet. A survey of possible sites resulted in the selection of a location along part of an area that was being filled by the Railways for expanded yard facilities. The Railways were advised of the selection in July 1958 and notified the Department of Public Works in the following month that the site was acceptable, and it was assumed by the Department that this concurrence would automatically suspend further filling operations. However, following the award of a contract for the construction of the new wharf and shed in 1960, it was found that an additional 15,000 yards of fill had been placed by the Railways after the original survey. The removal of this material, which was necessary in order that the wharf alignment coincide with required berth grades and railway track alignment, was carried out by the contractor at an additional cost of \$66,750, which was paid during the year under review.
15. **Cost of maintaining unused office space, London, England.** In 1959 the Department of Public Works was assigned responsibility for the provision and management of office space for Canadian Government departments in London, including office space previously controlled by other departments.

One of the properties involved had been acquired in 1953 by the Department of Citizenship and Immigration under a leasehold agreement extending to 1994. As a result of a consolidation of Canadian Government offices in London, the main building on the property was vacated in September 1961, with only the courtyard and out-buildings being used subsequently.

The cost of renting and maintaining the unused premises approximated \$18,000 during the last half of the year ended March 31, 1962. Up to the date of this report the Department of Public Works had been unable to dispose of the residue of the leasehold interest in the property on satisfactory terms.

16. **Repairs to public wharf, Bayfield, N.S.** In January 1961 a contract was entered into by the Department of Public Works for repairs to the outer section of a public wharf at Bayfield. Shortly after work had been commenced by the contractor, local fishermen expressed concern over the possibility that the wharf would not be in a usable condition during the lobster season and that the repair work would have an adverse effect on the impounded lobsters. As a result, the contractor was ordered to suspend work until the beginning of July. He was subsequently paid \$5,910 to cover costs incurred by him as a result of the suspension of the work.
17. **Delay in proceeding with construction of building addition, Stephenville, Nfld.** Late in 1958, when the Department of Public Works was contemplating an addition to a Crown-owned building at Stephenville, the municipal council informed the Department that a building permit would not be granted unless arrangements were made for adequate parking facilities. Although the matter had not been resolved, the Department called for tenders and on March 2, 1959 the successful bidder was notified that his tender of \$65,292 had been accepted. On March 12 he informed the Department that he had been refused a permit because of the parking situation. It was not until August 25, following extensive negotiations between the municipality and the Department, that the municipality consented to issue a permit, and work commenced on the following day.

During the year under review the Contractor was paid an additional \$5,136 to compensate him for expenses incurred as a result of the delay in proceeding with the work.
18. **Construction of housing units, Fort Smith, N.W.T.** In August 1959 the Department of Public Works entered into a contract in the amount of approximately \$370,000 for the construction of a number of housing units at Fort Smith. Although the specifications required the contractor to arrange with the electrical supply authority for connection to its lines, a local representative of the Department undertook to make the necessary arrangements and in due course informed the contractor that power would be available on September 21, 1959. As the Department's representative was remiss in completing arrangements, power was not made available until October 16. Due to the lack of power, it was not possible to operate the heating units in the houses and carpenters and sub-tradesmen were unable to work, or did so with reduced efficiency, until power became available.

In January 1962 the contractor was paid \$3,556 to compensate him for the additional costs thus incurred.
19. **Architectural services re proposed R.C.M.P. building, Markham, Ont.** In 1958 the Royal Canadian Mounted Police was authorized to acquire a site at Markham on which to construct a divisional headquarters. The cost of acquisition was \$127,500, including \$52,000 for the provision of water services. In December 1959 a firm of architects was engaged by the Department of Public Works, acting for the Force, to prepare plans and specifications and to supervise construction of the proposed facilities. In April 1960, following a review of the suitability of the Markham site, the conclusion was reached by the Force that it was too remote from downtown Toronto to provide a satisfactory base for divisional operations. The consultants were accordingly ordered to stop work on the project pending further instructions. In the year under review they

were paid \$9,439 calculated in accordance with the "abandonment of work" clause of the terms of engagement. No action has been taken for the disposal of the property.

20. **Construction of dwellings, Kenora, Ont.** In September 1959 the Department of Transport advertised for tenders for the construction of three double dwellings, a single dwelling and related work at Kenora. Before a contract had been signed, the lowest tenderer, whose bid was \$120,000, claimed that the plans and specifications provided for plumbing, heating and mechanical equipment on one side only of each of the double dwellings and that his price had taken this into consideration. He offered to do a complete job for \$133,200. When efforts to induce him to proceed at the original tendered price were not successful, a second call for tenders was made in June 1960 after the plans and specifications had been modified to remove any possible ambiguities. The same contractor was again the low tenderer and his bid of \$141,712 was accepted. The work was completed during the year under review at a total cost of \$142,096.

The additional cost which thus indirectly resulted from the deficiencies in the plans and specifications used when inviting tenders is a matter of conjecture, but a reasonable assumption is that it was in excess of \$8,000.

21. **Architectural services re proposed air terminal building, Victoria, B.C.** In July 1960 the Department of Transport was authorized to engage a firm of architects to design and supervise construction of an air terminal building and associated facilities at the Victoria International Airport. Early in 1961, when it became evident that traffic in and out of the airport had declined sharply, a reassessment of space requirements led to a decision to abandon the original proposal. The architects were paid \$4,195 for work completed on sketch plans, and were instructed to prepare new plans based on reduced space requirements. In March 1962, because of circumstances which it was felt might have a further adverse effect on traffic, the Department decided not to proceed with the second proposal and the architects were paid \$24,281 for services rendered in the preparation of the related sketch plans and working drawings. As they were also paid \$1,184 in reimbursement of travel expenses, a total of \$29,660 was paid to them during the year under review in connection with abandoned plans. At the year-end the same architects had been engaged to prepare plans for a still more modest project.

22. **Architectural services for air conditioning system at air terminal building, Halifax, N.S.** The Department of Transport requested the consultants who had been engaged to perform architectural services in connection with the construction of the terminal building at the Halifax International Airport, to prepare sketch plans and working drawings covering the design of an air conditioning system for the building. When it was decided to postpone the installation of the system in favour of a future installation of more modest design, the architects were paid \$14,480 for work already done in connection with the unused plans.

Summary of Assets and Liabilities

116. The Statement of Assets and Liabilities as at March 31, 1962, with comparable figures at the end of the preceding year, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General in accordance with section 64 of the Financial Administration Act, is reproduced as Appendix 2 to this report.

Assets

117. The following table lists the assets at March 31, 1962 by main headings in the Statement of Assets and Liabilities (Appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

	<u>March 31, 1960</u>	<u>March 31, 1961</u>	<u>March 31, 1962</u>
Current assets	\$ 862,147,000	\$ 784,348,000	\$ 1,246,016,000
Advances to the Exchange Fund Account	1,960,000,000	2,024,000,000	1,793,000,000
Sinking fund and other investments held for retirement of unmatured debt	85,272,000	17,018,000	19,432,000
Loans to and investments in Crown corporations	3,437,663,000	3,614,188,000	3,985,330,000
Loans to national governments	1,414,528,000	1,378,196,000	1,339,797,000
Other loans and investments	943,470,000	1,035,651,000	993,863,000
Securities held in trust	30,612,000	30,042,000	25,837,000
Deferred charges	616,293,000	733,702,000	727,826,000
Suspense accounts	33,000	136,000	136,000
Inactive loans and investments	93,539,000	94,825,000	94,824,000
Total Assets	<u>9,443,557,000</u>	<u>9,712,106,000</u>	<u>10,226,061,000</u>
Less—Reserve for losses on realization of assets	<u>546,384,000</u>	<u>546,384,000</u>	<u>546,384,000</u>
Net Assets	<u>\$ 8,897,173,000</u>	<u>\$ 9,165,722,000</u>	<u>\$ 9,679,677,000</u>

118. *Current assets.* The balances included under this heading at March 31, 1962, with the comparable balances at the close of the two previous years, were:

	<u>March 31, 1960</u>	<u>March 31, 1961</u>	<u>March 31, 1962</u>
Cash	\$ 565,436,000	\$ 486,760,000	\$ 895,321,000
Departmental working capital advances and revolving funds:			
Agricultural commodities stabilization account	120,698,000	90,198,000	132,783,000
Defence production revolving fund	20,667,000	15,651,000	27,297,000
Other	54,645,000	65,234,000	63,300,000
	<i>196,010,000</i>	<i>171,083,000</i>	<i>223,380,000</i>
Securities held for the securities investment account	77,863,000	101,454,000	94,608,000
Other current assets	22,838,000	25,051,000	32,707,000
	<u>\$ 862,147,000</u>	<u>\$ 784,348,000</u>	<u>\$ 1,246,016,000</u>

The increase of \$409 million in cash balances during the year under review may be accounted for as follows:

Net increase in unmatured debt outstanding (see paragraph 135)	\$ 878,000,000
Net amount received from other non-budgetary transactions (including net repayments of \$231,000,000 of advances to the Exchange Fund Account)	330,000,000
	<hr/> 1,208,000,000
Deduct—	
Budgetary deficit—excess of expenditure over revenue for the year	\$ 791,000,000
Decrease in cash in hands of collectors and in transit	8,000,000
	<hr/> 799,000,000
	<hr/> \$ 409,000,000
	<hr/> <hr/>

The \$132,783,000 balance of the Agricultural Commodities Stabilization Account at March 31, 1962 was \$42,585,000 (47%) greater than the corresponding amount at the end of the preceding year, the difference being more than accounted for by the increase of \$45,349,000 in the inventory of butter held by the Agricultural Stabilization Board (see paragraph 181.).

The increase of \$11,646,000 in the Defence Production Revolving Fund was more than accounted for by working capital advances of \$14,295,000 made to Canadair Limited for the production of five CL-44 aircraft.

The decrease of \$6,846,000 in the balance of the Securities Investment Account was accounted for by (a) a decrease of \$19,364,000 in the temporary holdings of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act offset, in part, by (b) securities of \$12,158,000 (market value at December 31, 1961) received by the Minister of Finance on February 21, 1962 on assignment from the Canadian Arsenal's Limited Pension Fund, with the approval of the Governor in Council, upon the transfer to the Public Service Superannuation Account of the liability for the payment of pensions to pensioners and former contributors to the Fund. Under the terms of this transfer, the Minister of Finance is to credit the Public Service Superannuation Account with the proceeds to be derived from the sale of these securities. There were no sales during the period from February 21 to March 31, 1962, at which date the securities had a market value of \$12,091,000.

119. *Advances to the Exchange Fund Account.* This Account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the Minister from time to time within the maximum (\$2,500,000,000 at March 31, 1962) authorized by the Governor in Council under section 23 of the Currency, Mint and Exchange Fund Act, R.S., c.315. The advances to the Account at each year-end are included in the Statement of Assets and Liabilities at their total, less repayments, with a parenthetical note associated with the item giving the market value of the investments from the advances.

Thus at March 31, 1962 the amount shown for "Advances to the Exchange Fund Account" was \$1,793,000,000, being the total of the advances less repayments, whereas the market value of investments from advances was \$1,759,690,000, indicating an unrecorded deficiency of \$33,310,000. By comparison, the corresponding unrecorded deficiencies at the close of the two previous years were \$154,042,000 at March 31, 1961 and \$213,695,000 at March 31, 1960 (see paragraph 141).

A summary of the transactions in the Account for its financial year ended December 31, 1961 is included in paragraph 194 of this report.

120. *Sinking fund and other investments held for retirement of unmatured debt.* This item represents the investments held for the sinking fund maintained with respect to Newfoundland loans assumed under the Terms of Union. The \$19,432,000 holding at March 31, 1962 was \$2,414,000 greater than the corresponding holding of \$17,018,000 at the close of the preceding year.

121. *Loans to and investments in Crown corporations.* The following table lists these loans and investments at March 31, 1962, with the comparable balances at the close of the two previous years:

	March 31, 1960	March 31, 1961	March 31, 1962
Central Mortgage and Housing Corporation\$	1,318,683,000	\$ 1,510,711,000	\$ 1,701,029,000
Canadian National Railways	1,207,808,000	1,092,590,000	1,165,039,000
The St. Lawrence Seaway Authority	315,927,000	339,927,000	368,216,000
Farm Credit Corporation	115,700,000	155,754,000	209,971,000
National Harbours Board	161,398,000	172,770,000	178,743,000
Northern Ontario Pipe Line Crown Corporation	121,500,000	123,750,000	119,035,000
Atomic Energy of Canada Limited	59,374,000	60,930,000	65,827,000
Canadian Overseas Telecommunication Corporation	22,590,000	31,686,000	37,918,000
National Capital Commission	17,742,000	25,232,000	31,478,000
Polymer Corporation Limited	30,000,000	30,000,000	30,000,000
Northern Canada Power Commission	25,586,000	26,463,000	26,158,000
Other balances	41,355,000	44,375,000	51,916,000
	<u>\$ 3,437,663,000</u>	<u>\$ 3,614,188,000</u>	<u>\$ 3,985,330,000</u>

The increase of \$190 million in the amount shown for Central Mortgage and Housing Corporation during the year ended March 31, 1962 is largely accounted for by advances of \$224 million during the year, pursuant to section 22 of the Central Mortgage and Housing Corporation Act, R.S., c.46, less repayments of \$46 million in respect of advances made under this section in previous years.

The increase of \$72 million in the amount shown for Canadian National Railways was accounted for by (a) advances of \$139 million under Canadian National Railways Financing and Guarantee Acts and by a further investment of \$21 million in 4% preferred stock in the Company pursuant to section 6 of the Canadian National Railways Capital

Revision Act, R.S., c.311, less (b) reductions of \$66 million and \$7 million as a result of charging to Expenditure the temporary loans made to the Canadian National Railways and Trans-Canada Air Lines, to meet their 1961 income deficits, together with a repayment of \$15 million in respect of previous years' advances.

Further loans of \$14 million to The St. Lawrence Seaway Authority during the year under review, plus an additional \$14 million for deferred interest on loans, accounted for the increase of \$28 million during the year to bring the investment in the Authority to \$368,216,000 at March 31, 1962 (see also paragraph 178).

The increase of \$54 million in the amount for the Farm Credit Corporation is due to further loans of \$52 million under the Farm Credit Act, 1959, c.43, together with an increase in the capital of the Corporation from \$6.4 million to \$8.1 million.

122. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1962 in comparison with the corresponding balances at the close of the two previous years:

	<u>March 31, 1960</u>	<u>March 31, 1961</u>	<u>March 31, 1962</u>
Belgium	\$ 39,219,000	\$ 36,912,000	\$ 34,605,000
France	152,100,000	143,650,000	135,200,000
India	33,000,000	29,546,000	24,831,000
Netherlands	79,177,000	74,013,000	68,850,000
United Kingdom	1,108,287,000	1,091,544,000	1,074,476,000
Other countries	2,745,000	2,531,000	1,835,000
	<u>\$ 1,414,528,000</u>	<u>\$ 1,378,196,000</u>	<u>\$ 1,339,797,000</u>

The reductions totalling \$38 million during the year ended March 31, 1962 were the result of the continued repayment of each of the loans as the instalments fell due.

123. *Other loans and investments.* The balances comprising this asset item at March 31, 1962, with comparable balances at the end of the two previous years, were:

	<u>March 31, 1960</u>	<u>March 31, 1961</u>	<u>March 31, 1962</u>
Subscriptions to capital of and working capital advances and loans to international organizations	\$ 605,175,000	\$ 631,127,000	\$ 659,936,000
Veterans' Land Act advances	188,903,000	199,644,000	207,953,000
Less—Reserve for conditional benefits ...	37,277,000	33,552,000	30,598,000
	<u>151,626,000</u>	<u>166,092,000</u>	<u>177,355,000</u>
Loans to provincial governments	99,396,000	98,372,000	97,879,000
Balances receivable under agreements of sale of Crown assets	15,982,000	12,094,000	10,622,000
Loans to Old Age Security Fund	28,001,000	17,283,000	—
Loans to Unemployment Insurance Commission	—	67,000,000	—
Other balances	43,290,000	43,683,000	48,071,000
	<u>\$ 943,470,000</u>	<u>\$ 1,035,651,000</u>	<u>\$ 993,863,000</u>

The following is a listing of the balances comprising the \$659,936,000 shown for the first item in the above table at March 31, 1962:

Subscriptions to capital:

International Monetary Fund	\$ 564,661,000
International Bank for Reconstruction and Development	73,680,000
International Development Association	16,366,000
International Finance Corporation	3,522,000
	<hr/>
	658,229,000
Working capital advances and loans	1,707,000
	<hr/>
	\$ 659,936,000
	<hr/>

During the year ended March 31, 1962, Canada's subscription to the International Monetary Fund was increased by \$21 million through the issue of additional non-interest bearing notes following revaluation of the Canadian dollar portion of the subscription, based on the rate of exchange for the United States dollar at January 31, 1962.

Section 11 of the Old Age Security Act, R.S., c.200, provides for the establishment of a special account in the Consolidated Revenue Fund to which shall be credited the taxes levied by the Act, and provision is made for temporary loans to the special account. At March 31, 1960 the temporary loans amounted to \$28,001,000. These were partially repaid in 1960-61 with the balance of the loans being discharged during 1961-62.

The loans to the Unemployment Insurance Commission in 1960-61 were repaid in full during the fiscal year ended March 31, 1962 (see paragraph 200).

124. *Securities held in trust.* The \$25,837,000 total of balances comprising this item in the Statement represents securities held for the following accounts: contractors' security deposits, \$11,114,000; guarantee deposits in respect of oil and gas permits, \$4,728,000; guarantee deposits in respect of customs duties and excise taxes, \$4,273,000; pilots' pension funds, \$3,433,000; and other, \$2,289,000.

125. *Deferred charges.* The balances included under this heading at March 31, 1962, in comparison with the corresponding balances at the close of the two previous years, were:

	<u>March 31, 1960</u>	<u>March 31, 1961</u>	<u>March 31, 1962</u>
Unamortized portion of actuarial deficiencies—			
Canadian forces superannuation account	\$ 326,300,000	\$ 326,300,000	\$ 326,300,000
Public service superannuation account	139,000,000	276,661,000	276,661,000
Royal Canadian Mounted Police superannuation account	—	—	3,533,000
	465,300,000	602,961,000	606,494,000
Unamortized loan flotation costs	150,993,000	130,741,000	121,332,000
	<hr/>	<hr/>	<hr/>
	\$ 616,293,000	\$ 733,702,000	\$ 727,826,000
	<hr/>	<hr/>	<hr/>

The amounts appearing under the heading "unamortized portion of actuarial deficiencies" represent the balances of amounts set up in the accounts when bookkeeping entries were made for the purpose of increasing the balances at credit of the relative superannuation accounts. In paragraph 144 the Audit Office view is again restated that these bookkeeping entries should not have been made.

The item "unamortized loan flotation costs" records the unamortized portion of the cost of discounts and commissions incurred in the issuance of loans. The following is a summary of the transactions for the year under review:

Balance, April 1, 1961	\$ 130,741,000
Add: Costs incurred in issuing new loans during the year	36,224,000
	<hr/>
	166,965,000
Deduct:	
Amortization charges included in 1961-62 Expenditure	\$ 44,998,000
Adjustments due to cancellations, exchanges and conversions ...	635,000
	<hr/>
	45,633,000
Balance, March 31, 1962	<hr/> <hr/> \$ 121,332,000

126. *Suspense accounts.* The \$136,000 shown for this item on the assets side of the Statement represents the balance, unchanged during the year under review, of the Cheque Adjustment Account, which reflects the total of the individual balances that remained unadjusted in the process of reconciling payments to the chartered banks for redemption of paid cheques, with the totals of the relative cheques as subsequently determined. The balance includes amounts relating to the fiscal years 1942-43 to 1960-61.

127. *Inactive loans and investments.* The \$94,824,000 shown for this item in the Statement at March 31, 1962 comprised the following balances:

Loan to China, in 1946, under the Export Credits Insurance Act	\$ 49,426,000
Loans to Greece and Roumania, in 1919, for the purchase of goods produced in Canada	30,854,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company (carrying prior guarantee by the Government of China)	14,470,000
Loan to Province of Saskatchewan, in 1908, for the purchase of seed grain	74,000
	<hr/>
	\$ 94,824,000

There were no changes in these balances during the year under review.

The \$74,000 shown as a loan to the Province of Saskatchewan represents the balance remaining of advances totalling \$861,000 made to the Province under the authority of Vote 281, Supplementary Estimates 1907-08. Under this authority, the federal government undertook to pay for seed grain supplied to settlers in Saskatchewan and the total amount advanced was to be paid back by the Province in 1909. In practice, however, the Province has remitted yearly only what it received from the farmer debtors.

Liabilities

128. The following table lists the liabilities at March 31, 1962 by main headings in the Statement of Assets and Liabilities (Appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1960	March 31, 1961	March 31, 1962
Current and demand liabilities	\$ 1,099,057,000	\$ 1,147,561,000	\$ 1,234,081,000
Deposit and trust accounts	242,673,000	239,667,000	266,624,000
Annuity, insurance and pension accounts ...	3,565,376,000	3,955,510,000	4,245,942,000
Undisbursed balances of appropriations to special accounts	96,620,000	104,493,000	115,135,000
Deferred credits	83,961,000	79,073,000	94,991,000
Suspense accounts	8,528,000	8,618,000	5,305,000
Unmatured debt	15,890,152,000	16,067,915,000	16,945,736,000
	<u>\$ 20,936,367,000</u>	<u>\$ 21,602,837,000</u>	<u>\$ 22,907,814,000</u>

129. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1962, with the comparable balances at the close of the two previous years, were:

	March 31, 1960	March 31, 1961	March 31, 1962
Non-interest bearing notes payable to the International Monetary Fund and the International Development Association ..	\$ 376,000,000	\$ 383,660,000	\$ 372,032,000
Accounts payable	245,099,000	221,396,000	280,711,000
Outstanding Treasury cheques	228,768,000	251,741,000	265,658,000
Interest accrued	137,622,000	154,016,000	174,601,000
Other balances	111,568,000	136,748,000	141,079,000
	<u>\$ 1,099,057,000</u>	<u>\$ 1,147,561,000</u>	<u>\$ 1,234,081,000</u>

130. *Deposit and trust accounts.* The following is a listing of the balances included in this item at March 31, 1962 in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1960	March 31, 1961	March 31, 1962
Provincial tax collection agreements	—	—	\$ 37,986,000
Indian trust funds	\$ 29,224,000	\$ 28,516,000	28,523,000
Post Office Savings Bank	29,372,000	28,513,000	27,365,000
Deposits by Crown corporations	12 625,000	19,400,000	24,175,000
Contractors' security deposits	27,705,000	21,804,000	18,003,000
Contractors' holdbacks	17,398,000	15,635,000	17,793,000
Korean operations pool	16,104,000	16,117,000	16,117,000
United States of America	33,927,000	36,686,000	12,228,000
Canadian Arsenals Limited Pension Fund	—	—	12,158,000
Canadian Pension Commission (Administration trust fund)	10,281,000	10,980,000	12,087,000
Guarantee deposits	14,437,000	13,758,000	10,403,000
Other balances	51,600,000	48,258,000	49,786,000
	<u>\$ 242,673,000</u>	<u>\$ 239,667,000</u>	<u>\$ 266,624,000</u>

The amount shown for "provincial tax collection agreements" at March 31, 1962 represents the provision for balances owing to several provinces in respect of collections made under agreements whereby the Government of Canada was to collect provincial personal and corporation taxes which were to take the place of payments to the provinces under the former tax rental agreements.

An explanation of the balance due in respect of the Korean Operations Pool was given in the 1960 report (paragraph 99).

The \$12,158,000 shown for "Canadian Arsenal's Limited Pension Fund" at March 31, 1962 represents the credit given for securities which were taken over from the former fund and were being held in the Securities Investment Account pending their sale (see paragraph 118).

The \$49,786,000 shown for "other balances" at March 31, 1962 represents the total of 88 balances then outstanding, including: collections on instalment purchases of Canada savings bonds for public service employees, \$12,416,000; National Harbours Board special accounts, \$7,592,000; Army Benevolent Fund, \$6,278,000; veterans' trust funds, \$6,204,000; deferred pay of Armed Forces personnel, \$2,813,000; and National Research Council special fund, \$1,973,000.

131. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1962 in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	March 31, 1960	March 31, 1961	March 31, 1962
Government annuities	\$ 1,156,867,000	\$ 1,199,123,000	\$ 1,235,305,000
Public Service Superannuation Account	1,229,620,000	1,468,848,000	1,586,929,000
Canadian Forces Superannuation Account ..	1,053,011,000	1,155,333,000	1,279,239,000
Other balances	125,878,000	132,206,000	144,469,000
	<u>\$ 3,565,376,000</u>	<u>\$ 3,955,510,000</u>	<u>\$ 4,245,942,000</u>

The following is a summary of the transactions in the *Government Annuities Account* during the year under review:

Balance, April 1, 1961		\$ 1,199,123,000
Add:		
Premiums received	\$ 43,479,000	
Interest credits	46,011,000	
		<u>89,490,000</u>
		1,288,613,000
Deduct:		
Vested annuity and commuted value payments and refunds	53,016,000	
Transfer to Revenue of the excess of the Fund over the valuation of annuities outstanding	292,000	
		<u>53,308,000</u>
Balance, March 31, 1962		<u>\$ 1,235,305,000</u>

A summary of the transactions in the *Public Service Superannuation Account* during the year ended March 31, 1962 is as follows:

Balance, April 1, 1961		\$ 1,468,848,000
Add:		
Contributions by participants	\$ 53,579,000	
Contributions by Government	49,256,000	
Interest credits	61,169,000	
Other credits	270,000	
		<hr/> 164,274,000
		<hr/> 1,633,122,000
Deduct:		
Annuity payments	39,104,000	
Withdrawals of contributions	6,590,000	
Other charges	499,000	
		<hr/> 46,193,000
Balance, March 31, 1962		<hr/> <hr/> \$ 1,586,929,000

Reference is made in paragraph 144 concerning the composition of the balance at credit of this account.

The following is a summary of the transactions in the *Canadian Forces Superannuation Account* during the year ended March 31, 1962:

Balance, April 1, 1961		\$ 1,155,333,000
Add:		
Contributions by participants	\$ 33,629,000	
Contributions by Government	55,985,000	
Interest credits	48,050,000	
Other credits	331,000	
		<hr/> 137,995,000
		<hr/> 1,293,328,000
Deduct:		
Annuity payments	7,321,000	
Gratuities and withdrawal allowances	6,690,000	
Other charges	78,000	
		<hr/> 14,089,000
Balance, March 31, 1962		<hr/> <hr/> \$ 1,279,239,000

A comment is made in paragraph 145 regarding the composition of the balance at credit of this account.

Included in the \$144,469,000 shown for "other balances" at March 31, 1962 in the table given above with respect to "annuity, insurance and pension accounts", is the \$14,535,000 uninvested portion of the Unemployment Insurance Fund on deposit with the Receiver General. A summary of the transactions in the Fund during the year under review, in comparison with the corresponding amounts for the two previous fiscal years, is given in paragraph 200.

Also included in the "annuity, insurance and pension accounts" is a balance of \$1,564,000 standing to the credit of the *Old Age Security Fund* at March 31, 1962. The

following is a summary of the transactions relating to the Fund during the year in comparison with the corresponding amounts for the two previous years:

	1959-60	1960-61	1961-62
Collections of tax			
On sales	\$ 270,000,000	\$ 270,231,000	\$ 284,879,000
On personal incomes	185,550,000	229,400,000	258,950,000
On corporation incomes	91,336,000	103,500,000	100,125,000
	<u>546,886,000</u>	<u>603,131,000</u>	<u>643,954,000</u>
Payments of pensions under the Old Age Security Act	574,887,000	592,413,000	625,107,000
Surplus or (deficiency) during the year	(28,001,000)	10,718,000	18,847,000
Preceding year's balance brought forward	—	(28,001,000)	(17,283,000)
Balance at year-end	<u>\$ (28,001,000)</u>	<u>\$ (17,283,000)</u>	<u>\$ 1,564,000</u>

As the pension rate was increased from \$55 to \$65 per month effective February 1, 1962, the Fund bore the cost of the pensions at the increased rate for only the last two months of the fiscal year under review.

The balance at credit of the Members of Parliament Retiring Allowances Account is also included among the balances comprising the "annuity, insurance and pension accounts" item. Comments regarding the operation of this Account are made in paragraph 147.

132. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances comprising this item in the Statement of Assets and Liabilities, compared with the corresponding balances at the close of the two previous years:

	March 31, 1960	March 31, 1961	March 31, 1962
Colombo Plan Fund	\$ 62,966,000	\$ 67,533,000	\$ 77,626,000
Railway Grade Crossing Fund	31,196,000	34,050,000	33,754,000
National Capital Fund	2,360,000	2,810,000	3,660,000
Other	98,000	100,000	95,000
	<u>\$ 96,620,000</u>	<u>\$ 104,493,000</u>	<u>\$ 115,135,000</u>

During the year ended March 31, 1962 an amount of \$50 million, provided by Vote 89 under the Department of External Affairs, was credited to the account for the Colombo Plan, while expenditures totalling \$39,907,000 were charged to the account for aid given to countries in South and South-East Asia.

Amounts totalling \$10 million, provided under section 265 of the Railway Act, R.S., c.234, and Vote 448 under the Department of Transport, were credited to the account for the Railway Grade Crossing Fund during 1961-62, while expenditures totalling \$10,296,000 were incurred in aiding in the cost of installation of protective devices at railway grade crossings, grade separations and reflective markings on the sides of railway cars.

During the year ended March 31, 1962 an amount of \$5,100,000, provided by Vote 377 under the Department of Public Works, was credited to the account for the National Capital Fund, while amounts totalling \$4,250,000 were charged to the account for payments to the National Capital Commission to finance the cost of capital projects approved by the Governor in Council.

133. *Deferred credits.* The following is an analysis of this item at the close of the 1961-62 fiscal year and the two previous years:

	March 31, 1960	March 31, 1961	March 31, 1962
Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946	\$ 44,174,000	\$ 44,174,000	\$ 44,174,000
Deferred interest on loans to The St. Lawrence Seaway Authority	19,427,000	19,427,000	33,716,000
Credits arising from the recording of agreements of sale of Crown assets	13,554,000	9,955,000	8,772,000
Equity in agency account of Crown Assets Disposal Corporation	5,603,000	4,929,000	7,242,000
Other balances	1,203,000	588,000	1,087,000
	<u>\$ 83,961,000</u>	<u>\$ 79,073,000</u>	<u>\$ 94,991,000</u>

The only significant change during the year was the increase of \$14,289,000 in the deferred interest on loans to The St. Lawrence Seaway Authority. This deferred interest is payable by the Authority over a 46 year period commencing in 1964, along with repayments of principal.

134. *Suspense accounts.* The reduction of \$3,313,000 during the year in this item on the liabilities side of the Statement was largely accounted for by the reduction of \$3,190,000 in the balance at credit of the Replacement of Materiel Account maintained pursuant to section 11 of the National Defence Act. During the year under review credits to the Account for the proceeds of sales to other countries of "materiel not immediately required" totalled \$2,810,000 while an amount of \$6,000,000 was applied towards the procurement of replacement materiel.

135. *Unmatured debt.* A summary of the unmatured debt outstanding at March 31, 1962, in comparison with balances outstanding at the close of the two previous years, is as follows:

	March 31, 1960	March 31, 1961	March 31, 1962
Bonds			
Payable in Canada	\$ 13,563,341,000	\$ 14,002,751,000	\$ 14,930,571,000
Payable in London	51,811,000	31,989,000	31,990,000
Payable in New York	150,000,000	98,175,000	98,175,000
	<u>13,765,152,000</u>	<u>14,132,915,000</u>	<u>15,060,736,000</u>
Treasury Bills (not exceeding 180 days) ..	2,125,000,000	1,935,000,000	1,885,000,000
	<u>\$ 15,890,152,000</u>	<u>\$ 16,067,915,000</u>	<u>\$ 16,945,736,000</u>

The increase of \$928 million in unmatured bond debt payable in Canada was the amount by which new borrowings of \$3,456 million during the year exceeded redemptions of \$2,528 million of prior issues. Canada savings bonds accounted for \$1,038 million of the new borrowings and \$538 million of the redemptions. Also included was the \$62 million unredeemed portion of a special issue of non-marketable bonds to the Unemployment Insurance Commission in exchange for other securities previously held by the Unemployment Insurance Fund (see paragraph 148).

Issues payable in London are valued on the basis of £1 Sterling equals \$2.80 Canadian while those payable in New York are valued on a dollar for dollar basis.

Of the bonds outstanding at March 31, 1962, the following issues, all payable in Canada, fall due within the current fiscal year:

Loan of 1961 due May 1, 1962	\$ 100,000,000
Loan of 1960 due June 15, 1962	190,000,000
Canada savings bonds of 1951 due August 1, 1962	24,287,400
Loan of 1961 due August 1, 1962	335,000,000
Loans of 1959 and 1960 due October 1, 1962	268,497,000
Loan of 1960 due December 1, 1962	140,000,000
Loan of 1961 due December 15, 1962	375,000,000
Loan of 1959 due January 1, 1963	100,000,000
	<hr/>
	\$ 1,532,784,400
	<hr/>

Net Debt

136. With the Liabilities amounting to \$22,907,814,000 (paragraph 128) and the Assets to \$9,679,677,000 (paragraph 117), the Net Debt at March 31, 1962 was \$13,228,137,000. The following is a statement of the Net Debt Account for the year under review:

Balance, April 1, 1961	\$ 12,437,115,000
Add—Deficit for the fiscal year 1961-62:	
Expenditure	\$ 6,520,646,000
Revenue	5,729,624,000
	<hr/>
	791,022,000
	<hr/>
Balance, March 31, 1962	\$ 13,228,137,000
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Contingent Liabilities

137. A note on the Liabilities side of the Statement of Assets and Liabilities gives the totals of the several classes of contingent liabilities outstanding at the year-end, and makes reference to the appendix to the Public Accounts (Volume I, page 167) where details are to be found.

The following is a summary of the main contingent liabilities with determinate amounts which were outstanding at March 31, 1962, in comparison with the corresponding amounts at the close of the two preceding years:

	<u>March 31, 1960</u>	<u>March 31, 1961</u>	<u>March 31, 1962</u>
Railway securities guaranteed as to principal and interest	\$ 1,430,051,000	\$ 1,672,634,000	\$ 1,636,100,000
Deposits maintained by chartered banks in Bank of Canada	619,905,000	656,295,000	696,008,000
Insured loans made by approved lenders under the National Housing Act, 1954 ..	2,671,918,000	3,017,404,000	3,640,000,000
Guarantees under Export Credits Insurance Act, Part I	96,181,000	109,934,000	291,700,000
Loans made by chartered banks to Canadian Wheat Board	109,396,000	125,558,000	113,555,000
Other contingent liabilities of determinate amounts	67,552,000	89,783,000	66,299,000
	<u>\$ 4,995,003,000</u>	<u>\$ 5,671,608,000</u>	<u>\$ 6,443,662,000</u>

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under National Housing Acts prior to the 1954 Act.

Comments on Assets and Liabilities

138. Section 64 of the Financial Administration Act requires that there be included in the Public Accounts "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

139. The Statement of Assets and Liabilities at March 31, 1962 was prepared by the Department of Finance on the same basis as in previous years. the following explanation concerning this basis being included in the introduction to the Public Accounts:

"With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of \$1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.

"On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the 'Current and demand liabilities' schedule to the statement of assets and liabilities."

While the Statement of Assets and Liabilities may seem to correspond in appearance to the balance sheet of a large commercial undertaking, it is important for the reader to understand that it is not a balance sheet within the generally accepted meaning of the term. This is because the Statement in its present form omits a number of items which would normally appear as assets on a commercial balance sheet while at the same time including others which are of doubtful value. Similarly, certain items appear as liabilities which are not generally found as such in commercial practice. The manner in which the excess of liabilities over net assets is shown as a "net debt" item on the assets side of the Statement is confusing; the term would be more understandable were it used to describe the net result shown by a statement exhibiting the outstanding debt at the termination of the fiscal year.

The principal reason for the differences mentioned above stems from the fact that the governing legislation, namely, the Financial Administration Act, contemplates the accounting system being maintained on the cash basis instead of the accrual basis employed in commercial practice. This means that revenues are recorded only when they are received while the cost of goods and services is recorded only when they are paid for, subject to the modifications and exceptions recited in the above explanation. Commercial practice, on the other hand, almost exclusively employs accrual accounting, that is to say, revenues are recorded in the period in which they are earned or accrue while the cost of goods and services is recorded on the books during the period when they are used regardless of when they are paid for.

The unique power given to the Minister of Finance to include in the Statement of Assets and Liabilities such assets and liabilities as in his opinion are required to show the financial position is in contrast to the limitations imposed, for example, on the chief executive officer of a commercial undertaking which must include in its balance sheet such assets and liabilities as are prescribed by federal and provincial legislation or called for by generally accepted accounting practice.

Over the years the Audit Office has subscribed to the view that little advantage would be gained by attempting to convert the accounting system of the Government from the cash basis to the accrual basis. It has recognized that the executive government must know at all times what funds are required to be raised through taxation to meet expenditures expected to come in course of payment within the fiscal year. Parliament in turn must always be basically interested in examining the country's financial needs in terms of cash required when considering budget proposals and estimates of proposed expenditures. The financial position at the termination of the fiscal year is accordingly reflected in the Statement of Assets and Liabilities on the modified cash accounting basis used by the Department of Finance.

As will be evident from some of the following comments in this section of the report, we believe that the Statement and its contents can be improved from the standpoint of clarity and presentation so as to achieve maximum disclosure of facts and figures for the information of Parliament and the public.

140. *Accounts receivable.* As explained in the quotation included in the preceding paragraph, taxes and other revenues receivable are not recorded as assets in the Statement of Assets and Liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding totals at the close of the preceding year, is given in the departmental sections of Volume II of the Public Accounts (with the exception of the Taxation Division of the Department of National Revenue). There is, however, no one place in the Public Accounts where information regarding the departmental totals and the substantial over-all total of accounts receivable is available. It would be informative to Parliament were an appendix giving this information included in the Public Accounts in future.

It has not been the practice over the years to include in the Public Accounts any information regarding amounts receivable by the Taxation Division of the Department of National Revenue, but it seems desirable that such information be made available to Parliament.

The following summary of accounts receivable includes the totals given in the departmental sections of the Public Accounts at March 31, 1962, together with totals of balances receivable as at February 28, 1962 by the Taxation Division, as provided by that Division:

Department	Current year	Previous Years		Total
		Collectable	Uncollectable	
Agriculture	\$ 715,620	\$ 795,611	\$ 51,466	\$ 1,562,697
Citizenship and Immigration ...	28,256	323,633	312,451	664,340
Defence Production	4,187	13,664	259,329	277,180
Justice	150,627	2,432	30	153,089
National Defence	4,565,080	965,958	185,077	5,716,115
National Health and Welfare ..	904,453	274,816	169,825	1,349,094
National Research Council	101,713	14,305	150	116,168
National Revenue—				
Customs and Excise Division	4,856,019*		2,304,292*	7,160,311
Taxation Division	187,320,412*		15,825,226*	203,145,638
Northern Affairs and National				
Resources	99,187	14,114	18,617	131,918
Public Works	1,139,578	262,103	44,753	1,446,434
Royal Canadian Mounted Police	261,463	4,317	23,694	289,474
Trade and Commerce	114,929	8,936	7,054	130,919
Transport	3,473,178	2,959,651	7,309	6,440,138
Veterans Affairs	3,359,409	2,571,060	821,019	6,751,488
Other departments	140,955	59,963	50,920	251,838
	<u>\$ 207,235,066</u>	<u>\$ 8,270,563</u>	<u>\$ 20,081,212</u>	<u>\$ 235,586,841</u>

* These totals relate to both current and previous years.

The accounts receivable totals shown in the above table were after writing off the following balances during the year under review:

Uncollectable debts of \$1,000 or less deleted from the accounts under the authority of section 23 of the Financial Administration Act	\$ 809,991
(Agriculture, \$17,348; Citizenship and Immigration, \$62,804; National Defence, \$20,807; Customs and Excise Division, \$34,943; Taxation Division, \$629,107; Transport, \$6,079; Veterans Affairs, \$31,205; and other departments, \$7,698)	
Uncollectable debts in excess of \$1,000 deleted from the accounts under the authority of Vote 710, Appropriation Act No. 4, 1962	3,703,795
(Agriculture, \$3,787; Citizenship and Immigration, \$97,226; Defence Production, \$8,282; Finance, \$116,747; National Defence, \$116,903; Taxation Division, \$3,299,327; Northern Affairs and National Resources, \$16,057; Transport, \$21,612; and Veterans Affairs, \$23,854)	
	<hr/>
	\$ 4,513,786
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It will be appreciated that whether accounts receivable are kept in memorandum form or recorded as an asset in the Statement of Assets and Liabilities, they are nonetheless debts due to the Crown, and their accurate recording and ultimate collection are prime responsibilities of the departments concerned.

While we have found that most of the departments having extensive accounts receivable keep their records accurately and efficiently, this frequently does not apply in the case of departments where accounts receivable as such are not an important factor. We believe this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to remove the possibility that now exists of accounts being tampered with and collections misappropriated.

141. *Advances to the Exchange Fund Account.* Reference was made in paragraph 111 of last year's report to the deficiency of \$154,042,000 that had accumulated with respect to this asset item to March 31, 1961 as a result of (a) dealings in gold and foreign currencies and securities and the revaluations of gold and foreign currencies since the establishment of the Exchange Fund Account in 1935, and (b) the exchange loss (unrealized) arising from the valuation of U.S. dollar holdings at the exchange rate for the U.S. dollar on March 31, 1961. It was suggested that the first portion of the deficiency should be written off with parliamentary authority.

This matter had been considered by the Standing Committee on Public Accounts in the course of its 1961 meetings, and in its Fifth Report, 1961 (paragraph 78) the Committee recommended:

"that the Minister of Finance be requested to submit to the Committee at the next session a report dealing with the desirability of writing off the amount in the accounts, with appropriate parliamentary authority, for example against the reserve for losses on realization of assets. The importance of the problem is such that your Committee believes that at the next session of Parliament it should give special attention to the

problem, including the question of transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and re-evaluation of holdings."

As the exchange value of the U.S. dollar equalled \$1.05 Canadian (i.e., the Canadian dollar approximated \$0.95 U.S.) at close of business on March 31, 1962, compared with an exchange value of \$0.99 Canadian a year earlier, a substantial exchange gain (unrealized) arose in valuing the Fund's U.S. dollar holdings, which had the effect of reducing the accumulated deficiency to \$33,310,000 at that date. The subsequent official revaluation of the Canadian dollar at \$0.925 U.S. on May 2, 1962 has had the effect of eliminating the deficiency entirely.

We remain of the opinion that, in order to prevent any future accumulation of losses, provision should be made for transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and revaluation of holdings of gold and foreign currencies.

142. *Loans to the Town of Oromocto.* In paragraph 81 an outline is given of the financial assistance provided to the Town of Oromocto during the period from its incorporation in 1956 up to March 31, 1962. It is there indicated that capital assistance loans were made during four fiscal years commencing with 1957-58, to a total of \$4,450,000, with repayments during the period up to March 31, 1962 totalling \$423,110.

The \$4,026,890 total of loans outstanding at March 31, 1962 is included in the asset item "other loans and investments" in the Statement of Assets and Liabilities.

In the circumstances described in paragraph 81, where it is noted that the operating costs for the calendar year 1961 amounted to \$1,602,000 while revenues totalled only \$81,000, it seems unrealistic to continue to treat the loans to the Town as an asset item for purposes of the Statement of Assets and Liabilities. This view was previously put forward in the report for 1959 (paragraph 67) at which time the outstanding loans stood at \$2,943,000.

143. *Land acquired for development of Cornwall Navigation System.* Comments were made on this matter in paragraph 112 of last year's report. The amount of \$1,710,566 representing the cumulative total of expenditures by the Department of Transport for the purchase of land in the Township of Cornwall is still included in the asset item "other loans and investments" in the Statement of Assets and Liabilities, as well as being included among the assets in the balance sheet of The St. Lawrence Seaway Authority, to which the land was transferred on April 1, 1959.

It continues to be the Audit Office view that, since the expenditures incurred for the canals and other properties that were also transferred to the Authority were written off as Expenditure and are not included as assets in the Statement of Assets and Liabilities, the balance in the asset account referred to above should be written off with due parliamentary authority.

144. *Public Service Superannuation Account.* In previous reports mention has been made of the fact that the balance of the Public Service Superannuation Account, forming part of the liability item "annuity, insurance and pension accounts", included an amount that had resulted from bookkeeping entries with counterparts in an offsetting "asset" item described as "deferred charge—unamortized portion of actuarial deficiency—public service superannuation account".

Section 32 of the Public Service Superannuation Act, 1952-53, c.47, which specifies the amounts to be credited to the Public Service Superannuation Account, reads:

- "32. (1) There shall be credited to the Superannuation Account in each fiscal year
- (a) an amount representing interest on the balance from time to time to the credit of the said Account, at such rates and calculated in such manner as the Governor in Council by regulation prescribes,
 - (b) an amount matching the total amount estimated by the Minister to have been paid into the said Account during the preceding fiscal year by way of contributions in respect of current service other than current service with any Public Service corporation or other corporation as defined in section 23, and
 - (c) such amount in relation to the total amount paid into the said Account during the preceding fiscal year by way of contributions in respect of past service as is determined by the Minister.
- (2) There shall be credited to the Superannuation Account, as soon as possible following the authorization of any salary increase of general application to the Public Service, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this Act, as a result of such salary increase."

Following an actuarial valuation as of December 1, 1951, it was estimated that the actuarial liability existing under the Public Service Superannuation Act was greater than the balance then standing at the credit of the Account by \$312 million and this amount was credited by means of an extra-statutory bookkeeping entry made in the fiscal year 1951-52, with an offsetting charge to the "asset" account described above. In the same year Parliament voted \$98 million as a special government contribution towards amortizing this deficiency, and this left a balance of \$214 million in the "asset" account. In the years 1952-53 and 1956-57 further amounts of \$25 million and \$50 million were appropriated by Parliament and written off the "asset" account, reducing it to \$139 million as at March 31, 1957. These reductions involved charges to Expenditure and had the same effect from the accounting point of view as if parliamentary authority had been given for the making of additional credits to the Superannuation Account beyond those provided for by section 32 of the Public Service Superannuation Act.

In 1960-61, following an actuarial valuation made as of December 31, 1957, a further bookkeeping credit of \$137,661,000 was made, bringing the "additional credits" included in the Account to a total of \$276,661,000, an offsetting amount being charged to the "asset" account for "deferred charge—unamortized portion of actuarial deficiency—public service superannuation account".

Over the years, the Department of Finance has taken the view that the practice of enlarging the balance at credit of the Superannuation Account in the manner outlined above, so as to relate it to the actuarial liability, was within the authority granted to the Minister of Finance by section 64 of the Financial Administration Act, subsection (2) of which reads, in part:

"(2) The Public Accounts shall be in such form as the Minister may direct, and shall include:

- (c) a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister are required to show the financial position of Canada as at the termination of the fiscal year."

The Finance Department received an opinion from the Department of Justice on December 30, 1960, which included:

"Section 63 of the Financial Administration Act requires the Minister of Finance, subject to regulations of the Treasury Board, to cause accounts to be kept to show such of the assets and direct and contingent liabilities of Canada as in his opinion are required to give a true and fair view of the financial position of Canada; section 64 requires the Public Accounts to be in such form as the Minister of Finance may direct, and it prescribes that the Public Accounts shall include such accounts and information as are necessary to show, with respect to the fiscal year, the financial transactions and financial position of Canada. In compliance with these provisions the Public Accounts contain a balance sheet showing on the liability side the total actuarial liability of Canada under the Superannuation Act, and on the asset side the unamortized portion of actuarial deficiencies. The latter amount, I understand, is intended to offset the amount added to actual receipts under the Act in order to bring the liability figure up to the total possible liability under the Act. These items, as I understand them, are intended to show, as required by the Financial Administration Act, the assets and direct and contingent liabilities of Canada, and in my opinion they do not affect the obligation to pay benefits under the Superannuation Act, or the authority to discharge accruing liabilities out of the Consolidated Revenue Fund. Whether the statements appearing in the Public Accounts constitute sufficient compliance with the provisions of the Financial Administration Act is a matter upon which the opinion of the Minister of Finance is the governing factor."

We understand that the Department of Finance interprets this opinion to mean that the Minister of Finance possesses the legal authority to direct the making of bookkeeping entries enlarging the balance at the credit of the Superannuation Account and the recording of charges to the offsetting "asset" account at his discretion—but we feel that there was no obligation to make the entries in question.

Our view continues to be that the Public Service Superannuation Account should have been credited (in addition to amounts contributed by participants) only with amounts provided for by section 32 of the Public Service Superannuation Act, as quoted above, or by special parliamentary appropriations—and that the offsetting bookkeeping entries made by the Department of Finance, being at variance with accepted accounting practice, should not have been made. In our opinion, the actuarial deficiency remaining after credits provided for by Parliament had been duly recorded should have been explained each year by means of a note to the Statement of Assets and Liabilities.

145. *Canadian Forces Superannuation Account.* In the 1960 report (paragraphs 100 and 108) reference was made to the non-cash or bookkeeping entry of \$326,300,000 which gave credit to this Account in 1958-59, with a corresponding charge being made to the "asset" account entitled "deferred charge—unamortized portion of actuarial deficiency—Canadian Forces Superannuation Account". The Audit Office view was stated, and was reaffirmed in last year's report (paragraph 114) that amounts additional to contributions by members of the Forces should be credited to the Account only as provided for by Parliament—either under section 24 of the Canadian Forces Superannuation Act or by special appropriation.

As in the case of the Public Service Superannuation Account (paragraph 144), our view is that the actuarial deficiency remaining after recording credits provided for by Parliament should have been explained each year by means of a note to the Statement of Assets and Liabilities.

146. *R.C.M.P. Benefit Trust Fund.* Reference is made to the comments in last year's report (paragraph 115) regarding the use being made of this Fund, the balance of which is included in the liability item "deposit and trust accounts".

The major outlay from the Fund during the year under review was again a distribution to each member of the Force. Individual payments of \$30, as compared with \$35 in the preceding year, accounted for \$174,990 out of a total expenditure of \$176,490. An advisory committee of senior officers, established to consider applications for loans and grants, approved loans of \$3,000 during the year, and it is expected that the Fund will be utilized to a greater extent in the making of loans and grants in appropriate circumstances in future years.

147. *Members of Parliament Retiring Allowances Account.* This Account, the balance of which is included in the liability item "annuity, insurance and pension accounts", was established on a contributory basis by the Members of Parliament Retiring Allowances Act, 1952, c.45 (now R.S., c.329, as amended) to provide retiring allowances to former Members of the House of Commons. Contributions by a Member are limited to a total of \$4,000, exclusive of interest on amounts elected to be paid in respect of previous sessions. The Account is credited with matching contributions by the Government equal to the contributions paid or elected to be paid by Members, together with interest at the rate of 4% per annum calculated on monthly balances.

The maximum benefit payable to a person at the time he ceases to be a Member is an annual allowance of \$3,000 during his lifetime. The Act provides for payment of a withdrawal allowance in case of death or where the former Member had not contributed or elected to contribute in respect of sessions of more than two Parliaments.

The balance at credit of the Account at March 31, 1962 was \$1,427,200, compared with a balance of \$1,692,623 at March 31, 1957. The decrease of \$265,423 represents the excess of disbursements over receipts during the past five years, as follows: \$131 in 1957-58, \$28,099 in 1958-59, \$79,478 in 1959-60, \$87,639 in 1960-61, and \$70,076 in 1961-62.

During the first half of the 1962-63 fiscal year the amount of the annual allowances authorized for payment increased from \$235,253 to \$262,716 and \$93,160 has been paid out in withdrawal allowances. While credits to the Account were increased by the contributions made by and in respect of new Members following the general election held in June 1962, a continuation of the downward trend noted during the preceding five years is indicated.

148. *Bonds outstanding with the Unemployment Insurance Commission.* In paragraph 135 reference is made to the inclusion in unmatured debt of the \$62 million unredeemed portion of a special issue of non-marketable bonds to the Unemployment Insurance Commission. This issue, bearing interest at $3\frac{3}{4}\%$ and redeemable at par on 30 days notice, is available for withdrawal by the Commission to meet current demands on the Fund from time to time.

The liability of the Government to the Unemployment Insurance Commission is comparable to its liability to Crown corporations and others for moneys on deposit by them with the Receiver General, and we feel that preferable treatment from the accounting point of view would have been to record the liability to the Commission in a similar manner. Had this been done, the amount held for the Fund would have been placed to the credit of a special account and included in the deposit and trust accounts item in the Statement of Assets and Liabilities, thereby denoting a more pressing obligation than is indicated by the inclusion of the item in "unmatured debt".

Crown Corporations

149. Section 85 of the Financial Administration Act requires that each Crown corporation prepare, in respect of each financial year, a balance sheet, a statement of income and expense and a statement of surplus "containing such information as, in the case of a company incorporated under the Companies Act, is required to be laid before the company by the directors at an annual meeting".

150. Section 87 of the Act requires the auditor of a Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the corporation, and the report is required to state whether, in his opinion:

- "(a) proper books of account have been kept by the corporation;
- (b) the financial statements of the corporation
 - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
 - (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and
 - (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and
- (c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation."

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

151. Section 87 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and section 85 directs that such annual report be laid before Parliament by the appropriate Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume III of the Public Accounts.

152. Crown corporations are classed as agency or proprietary in Schedules "C" and "D" to the Financial Administration Act. Those in the former class are responsible, in general, for the management of procurement, construction, service or disposal activities on behalf of the Crown. Those in the latter class are responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.

153. The Auditor General is the auditor of the following Crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1962:

<u>Corporation</u>	<u>Class</u>	<u>Reporting Minister</u>
Atomic Energy of Canada Limited	Agency	Veterans Affairs
Canadian Arsenals Limited	Agency	Defence Production
Canadian Broadcasting Corporation	Proprietary	Secretary of State
Canadian Commercial Corporation	Agency	Defence Production
Canadian National (West Indies) Steamships Limited	Agency	Transport
Canadian Overseas Telecommunication Corporation	Proprietary	Transport
Canadian Patents and Development Limited	Agency	Veterans Affairs
Cornwall International Bridge Company Limited ..	Proprietary	Transport
Crown Assets Disposal Corporation	Agency	Defence Production
Defence Construction (1951) Limited	Agency	Defence Production
Eldorado Aviation Limited	Proprietary	Trade and Commerce
Eldorado Mining and Refining Limited	Proprietary	Trade and Commerce
Export Credits Insurance Corporation	Proprietary	Trade and Commerce
Farm Credit Corporation	Proprietary	Agriculture
The National Battlefields Commission	Agency	Northern Affairs and National Resources
National Capital Commission	Agency	Public Works
National Harbours Board	Agency	Transport
Northern Canada Power Commission	Agency	Northern Affairs and National Resources

<u>Corporation</u>	<u>Class</u>	<u>Reporting Minister</u>
Northern Ontario Pipe Line Crown Corporation ..		Trade and Commerce
Northern Transportation Company Limited	Proprietary	Trade and Commerce
Park Steamship Company Limited	Agency	Transport
Polymer Corporation Limited and subsidiary companies	Proprietary	Defence Production
The St. Lawrence Seaway Authority	Proprietary	Transport

154. The accounts of the following Crown corporations and other public instrumentalities were not examined by the Auditor General during the year under review:

<u>Corporation or Instrumentality</u>	<u>Class</u>	<u>Reporting Minister</u>
Bank of Canada		Finance
Canadian National Railways	Proprietary	Transport
The Canadian National Railways Securities Trust	Proprietary	Transport
The Canadian Wheat Board		Agriculture
Central Mortgage and Housing Corporation	Proprietary	Public Works
Industrial Development Bank.....		Finance
Trans-Canada Air Lines	Proprietary	Transport

155. The paragraphs that follow treat, in turn, with the various Crown corporations audited by the Auditor General. An introductory comment describes briefly the origin and nature of the activity and is followed by comments regarding the Crown's equity in the corporation, a summary of the operations for the financial year in comparison with the preceding year, and any other matter which it is felt might be of interest to the House of Commons.

156. *Atomic Energy of Canada Limited.* This company was incorporated in 1952 under the Companies Act, 1934, pursuant to authority contained in the Atomic Energy Control Act, R.S., c.11, to carry out research and development in nuclear power technology and allied fields and to promote uses of atomic energy.

The head office of the company is in Ottawa and nuclear reactors and major research facilities are maintained at Chalk River, Ontario. A commercial products division, located in Ottawa, is responsible for the sale of beam therapy units, radio-active isotopes and other allied products.

At the close of the year the company had two nuclear power plants under construction. The nuclear power demonstration plant at Rolphoton, Ontario, was virtually completed and came into operation shortly after the end of the year. The final cost of this reactor, including the initial fuel loading, was \$32,847,000, of which \$25,017,000 represented the company's share at March 31, 1962, the balance being borne by the Canadian General Electric Company Limited and the Hydro-Electric Power Commission of Ontario. The costs of construction of a nuclear power generating plant at Douglas Point, Ontario, are being financed by Government of Canada loans and amounted to \$7,215,000 at March 31, 1962. Plans for engineering and development of both plants were prepared in co-operation with the Hydro-Electric Power Commission of Ontario.

Considerable progress was made during the year with respect to additional research and development facilities in the Whiteshell area of Manitoba and expenditures at the year-end amounted to \$2,834,000.

The Crown's equity in the company at March 31, 1962 totalled \$67,168,000, consisting of: loans for housing, \$5,552,000; loans for construction of the Douglas Point generating station, \$6,375,000; capital stock, \$54,000,000 and retained earnings, \$1,241,000.

A comparative summary of income and expense for the past two years follows:

Research Program—Operating	Year ended March 31	
	1962	1961
Expense—		
Research and development	\$ 8,494,000	\$ 8,477,000
Operation of research facilities	1,597,000	1,943,000
Engineering services	5,162,000	4,852,000
Nuclear power plant	7,060,000	4,674,000
Administration	3,079,000	2,893,000
Other	1,781,000	1,583,000
	<u>27,173,000</u>	<u>24,422,000</u>
Income: Gross income from housing, hospital, transportation, etc. ...	1,438,000	1,324,000
	<u>25,735,000</u>	<u>23,098,000</u>
Excess of expense over income		
Provided for by:		
Parliamentary appropriation	\$25,756,000	\$23,110,000
Less: Unexpended balance refundable to the Government of Canada	21,000	12,000
	<u>\$25,735,000</u>	<u>\$23,098,000</u>
<u>Research Program—Capital</u>		
Expense: Construction of buildings and acquisition of equipment ...	\$ 9,223,000	\$16,120,000
Provided for by:		
Parliamentary appropriation	\$ 8,198,000	\$15,081,000
Retained earnings	1,025,000	1,039,000
	<u>\$ 9,223,000</u>	<u>\$16,120,000</u>
<u>Commercial Operations</u>		
Income—		
Sales	\$ 3,878,000	\$ 3,402,000
Rentals, etc.	196,000	291,000
	<u>4,074,000</u>	<u>3,693,000</u>
Expense—		
Cost of sales, etc.	2,178,000	2,163,000
Research and development	444,000	274,000
Selling	760,000	669,000
Administrative	374,000	348,000
	<u>3,756,000</u>	<u>3,454,000</u>
Excess of income over expense, credited to retained earnings	\$ 318,000	\$ 239,000

The sale of material irradiated in the NRU reactor and the related costs are subject to a classified international agreement and are therefore not reflected in the above summary.

The rise in research operating expense in 1961-62 was due to the following increases: salaries, including welfare benefits, \$992,000; professional and special services, \$741,000; and contract expenditures, \$1,038,000. The increase in salaries was the result of an increase in the number of personnel employed, coupled with an increase in pay granted to a large number of employees and made retroactive to July 1, 1961. Designing and engineering services in connection with the nuclear power programs have continued to increase, resulting in greater costs relating to professional and special services and contracts with industry.

The net book value of plant and property at March 31, 1962 was \$36,920,000 including the depreciated value of the NRU reactor amounting to approximately \$25,000,000. It was noted in last year's report that the terms of a classified sales agreement did not provide for any further recovery of depreciation costs and therefore the depreciated value of the reactor would have to be written off. Cognizance was taken of this in a footnote to the balance sheet of the company at March 31, 1962 in these words: "Subject to the provision by Parliament of an appropriation for the purpose, the depreciated value of the NRU reactor amounting to \$25,239,000 will be written off during the ensuing year".

No such appropriation has been included in the Revised Estimates tabled in the House of Commons for the fiscal year ending March 31, 1963.

157. *Canadian Arsenals Limited*. This company was incorporated in 1945 under the provisions of the Companies Act, 1934, pursuant to authority contained in the Department of Reconstruction Act, 1944, c. 18, the main objects being to operate, maintain and supervise arsenals and other plants for the production of military stores and equipment, including the maintenance of physical facilities and manufacturing skills so that operations could be expanded on short notice.

Canadian Arsenals Limited, with its head office in Ottawa, is the custodian of nine government-owned plants constructed prior to or during the Second World War at a total cost in excess of \$100 million dollars. Eight of these plants are maintained in partially stand-by condition and one is idle.

The capital requirements of the company are provided annually by parliamentary appropriation. Vote 75, Appropriation Act No. 5, 1961, provided the Department of Defence Production with \$302,000 towards construction, improvements and equipment for the company. Actual capital expenditures during the year amounted to \$291,000 and the unexpended balance of \$11,000 lapsed at the year-end.

At March 31, 1962 the company's operations were financed by advances of \$4,648,000 from the Department of National Defence in respect of orders placed (reduced from \$11,162,000 at March 31, 1961), advances of \$5,000,000 from the Department of Defence Production Revolving Fund (reduced from \$6,000,000 at March 31, 1961) and advances of \$7,500,000 from the Minister of Finance for working capital (unchanged from March 31, 1961).

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1962	1961
Income—		
Sales	\$22,936,000	\$21,275,000
Miscellaneous	503,000	518,000
	<u>23,439,000</u>	<u>21,793,000</u>
Expense—		
Cost of sales, including indirect labour and other overhead expenses absorbed	20,250,000	18,395,000
Indirect labour and other overhead expenses not absorbed in cost of sales	5,318,000	5,438,000
Administrative expenses	911,000	879,000
	<u>26,479,000</u>	<u>24,712,000</u>
Excess of expense over income	<u>\$ 3,040,000</u>	<u>\$ 2,919,000</u>

The steady decline in sales in recent years, from \$81 million for the year ended March 31, 1955 to \$21 million for the year ended March 31, 1961, was checked during the year under review when sales reached \$23 million. The reduced level of activity and sales, coupled with the company's obligation to maintain the government-owned plants in partially stand-by condition, has necessitated funds being appropriated by Parliament towards the cost of administration and operation of the company. Vote 74, Appropriation Act No. 5, 1961 provided the Department of Defence Production with \$3,880,000 for this purpose, and Vote 691, Appropriation Act No. 4, 1962 extended the purpose of Vote 74 by authorizing the Department "to reimburse Canadian Arsenals Limited in respect of outstanding balances of previous years' operating deficits". Since the excess of expense over income for the year ended March 31, 1962 amounted to \$3,040,000 and the outstanding balances of previous years' deficits totalled \$130,000, a balance of \$710,000 remained in the Vote at the year-end and lapsed.

Total indirect labour and overhead expenses for the year amounted to \$11,238,000 (compared with \$11,803,000 for the previous year) of which \$5,920,000 was included in cost of sales. It has been the company's practice to calculate this portion of overhead expenses on direct labour costs at rates which theoretically would have absorbed all overhead expenses if all plants had been operating on a normal one-shift basis. These rates fell short of recovering overhead costs by \$5,318,000, which is shown in the above summary as indirect labour and other overhead expenses not absorbed in cost of sales, and is attributed largely to idle capacity of production facilities.

Inventories of raw materials, work in process and finished goods were reduced by \$7,994,000 or 43% from their level at March 31, 1961. The inventory reduction includes write-offs of \$637,000, of which \$564,000 was in respect of several years accumulation of materials considered surplus and \$73,000 was for products rejected by the inspection services of the company.

The liability of Canadian Arsenals Limited Pension Fund to its pensioners and contributors was transferred to the Crown under the Public Service Superannuation Act as of January 1, 1962.

Reference was made in last year's report to the fact that a firm of management consultants had been engaged in November 1960 by the Department of Defence Production to undertake a study of the organization of the company, the efficiency and cost of its manufacturing operations and other aspects of its activities. The report of the consultants was submitted during the past year and is currently under review by the management.

158. *Canadian Broadcasting Corporation.* The Canadian Broadcasting Corporation, established by the Canadian Broadcasting Corporation Act, 1936, c. 24, superseded by the Broadcasting Act, 1958, c. 22, operates the national radio and television broadcasting service and administers an international shortwave service. The head office of the Corporation is in Ottawa, with offices in St. John's, Halifax, Montreal, Ottawa, Toronto, Winnipeg and Vancouver, and an engineering headquarters in Montreal.

The Corporation derives its funds for operating requirements, in excess of advertising revenue, and also funds for its capital requirements, from parliamentary appropriations.

At March 31, 1962 the Crown's equity in the Canadian Broadcasting Corporation amounted to \$41,026,000, an increase of \$2,154,000 over the equity of \$38,872,000 at March 31, 1961. Of this increase, \$164,000 is represented by the transfer, at original cost less depreciation, of emergency transportable radio transmitters from the Department of National Health and Welfare to the Corporation.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1962	1961
Expense		
Cost of production and distribution:		
Cost of programs	\$67,471,000	\$62,784,000
Network distribution	9,934,000	9,237,000
Station transmission	3,906,000	3,636,000
Payments to private stations	4,851,000	5,279,000
Commissions to agencies and networks	4,620,000	5,187,000
	90,782,000	86,123,000
Northern Radio Service	1,018,000	760,000
Operational supervision and services	8,843,000	7,831,000
Selling and general administration	6,968,000	6,239,000
	107,611,000	100,953,000
Total expense, including depreciation	107,611,000	100,953,000
Income—Advertising revenue, etc.	33,320,000	38,089,000
Net expense	\$74,291,000	\$62,864,000

The net operating requirement for the year of \$70,252,000, comprising net expense of \$74,291,000 shown above, less depreciation of \$4,039,000 charged for cost ascertain-

ment purposes, was provided for by Vote 43, Appropriation Act No. 5, 1961 in the amount of \$70,418,000, with the unexpended portion of \$166,000 being refunded to the Receiver General and lapsing at the year-end.

The net expense for the year under review increased by \$11,426,000 over the net expense for the preceding year, \$6,658,000 of the increase being attributable to increased expense and \$4,768,000 to decreased advertising revenue, etc. Approximately two-thirds of the increased expense was due to increases in salaries and wages, including those of 336 additional employees, 90 of whom were engaged at the new television station in Edmonton. The \$4,768,000 decrease in advertising revenue, etc., was attributed by the Corporation mainly to the establishment of second television stations in eight major areas previously served only by the Corporation.

The following inventory items at March 31, 1962 are compared with the corresponding balances at the end of the previous year:

	Year ended March 31		Increase (Decrease)
	1962	1961	
Engineering and production supplies	\$ 1,569,000	\$ 2,185,000	\$ (616,000)
Programs completed and in process of production	3,341,000	2,129,000	1,212,000
Prepaid film rights	1,514,000	1,809,000	(295,000)
Prepaid script rights	143,000	173,000	(30,000)
	<u>\$ 6,567,000</u>	<u>\$ 6,296,000</u>	<u>\$ 271,000</u>

The net decrease of \$616,000 shown above in the inventories of engineering and production supplies was more than accounted for by certain stationery, technical and production stocks on hand, totalling \$701,000, being charged directly to expenses at March 31, 1962. The Corporation intends to charge all future purchases of these particular supplies to expenses as they are bought instead of following its previous practice of charging such items to expenses only when used.

The increase in programs completed and in process of production at the year-end was mainly due to the increased use of videotapes for recording programs in advance of broadcast. The decrease of \$295,000 in prepaid film rights is attributable to the tightening of commitment procedures and the reduction in terms for which the rights were acquired in the Ontario region. Prepaid film rights in the Quebec region amounted to \$1,298,000, or 85% of the total amount invested in film rights, compared with \$1,272,000, or 70% of the total so invested at the close of the preceding year.

The amounts shown in the tabulation above are after giving effect to the following write-offs:

Engineering, stationery and production supplies, comprising the \$701,000 charged directly to expenses as mentioned above, and \$86,000 of unuseable and obsolete stock	\$ 787,000
Programs completed and in process of production, abandoned and cancelled for various reasons, loss on R.C.M.P. television series, etc.	207,000
Film and script rights expired because of changes in programming, or unsuitable because of program content	165,000
	<u>\$ 1,159,000</u>

Vote 44, Appropriation Act No. 5, 1961 provided for the capital requirements of the Corporation in the amount of \$9,640,000. Capital expenditure amounted to \$6,214,000, and \$3,000,000 was refunded to the Receiver General in March 1962, leaving an unexpended balance of \$426,000 to be refunded at the year-end.

During the past three years, \$1,869,000 was spent in connection with the proposed consolidation of facilities in Toronto, Montreal and Ottawa. The footnote to the balance sheet as at March 31, 1962 sets out that the estimated total cost of consolidation of facilities at these locations would be \$81,087,000, of which approximately \$2,890,000 would be expended during the year ending March 31, 1963 and \$76,328,000 during the succeeding years. The capital budget for the year ended March 31, 1963, submitted through the Minister for approval by the Governor in Council, shows the estimated expenditure on the consolidation project for the year reduced to \$1,578,000. The extent to which expenditures may actually be incurred is subject to the provision of funds by annual parliamentary appropriations.

In last year's report we drew attention to a recommendation contained in our report to the Board of Directors for 1959-60 that a useful purpose might be served by having the Corporation's organizational structure in terms of its present size, complexity and cost made the subject of a study by independent management consultants working in co-operation with the Audit Office. A study along these lines was completed by the Royal Commission on Government Organization during the past year but at the time of preparation of this report the contents of this portion of the Commission's findings had not been made public.

159. *Canadian Commercial Corporation.* This Corporation which was established in 1946 under the Canadian Commercial Corporation Act, now R.S., c. 35, provides procurement services in Canada for the governments of other countries and for international organizations, with the United States Government being the main customer. Some \$107 million was expended through the Corporation on behalf of its customers for the year ended March 31, 1962.

At the year-end the equity of the Government of Canada in the Corporation was \$10,634,769, represented by a \$10 million working capital advance and a \$634,769 accumulated surplus. A net increase of \$3 million in the working capital advance during the year was occasioned by the Corporation's need to meet progress payments to a Canadian contractor manufacturing aircraft for the United States Government. Payments received from that Government in April 1962 enabled the Corporation to repay the \$3 million additional advance that had been received.

The following is a comparative summary of the operations of the Corporation for the past two years:

	Year ended March 31	
	1962	1961
Expense—		
Salaries and living allowances	\$ 331,000	\$ 283,000
Other expense	87,000	75,000
	<u>418,000</u>	<u>358,000</u>
Income—		
Purchase surcharges	108,000	159,000
Interest earned	66,000	55,000
Exchange gain	62,000	50,000
Other income	6,000	5,000
	<u>242,000</u>	<u>269,000</u>
Net loss	<u>\$ 176,000</u>	<u>\$ 89,000</u>

The decline in purchase surcharges resulted from a continuing trend of decreasing charges for procurement services. In December 1960 the surcharge rate applicable to Commonwealth and NATO countries was reduced from 2% (1% in the case of contracts in excess of \$1 million) to $\frac{1}{2}$ of 1%, and in December 1961 the Board of Directors agreed to waive entirely the surcharge to NATO countries. As was mentioned in last year's report, under a reciprocal agreement, no surcharges are levied on United States contracts.

Since the inception of the Department of Defence Production in 1951, that Department has provided purchasing and accounting services to the Corporation free of charge. Similarly, Defence Construction (1951) Limited has made no charge for the use of its facilities regarding construction contracts. The result of this arrangement is that the accounts and financial statements of the Corporation do not reflect the full cost of administering its business. The services provided have not been costed and no precise figure is therefore available. However, a rough estimate is that their value is in the neighbourhood of \$2 million annually, whereas the recorded expense for 1961-62 was \$418,000, as shown in the above summary.

In last year's report reference was made to the successive annual losses that had been experienced by the Corporation and had been absorbed by the accumulated surplus of prior years—and it was mentioned that the Board of Directors had recommended that an arrangement be sought whereby annual losses would be made good from funds appropriated by Parliament. The Treasury Board was consulted on this matter by the Corporation's management, and the Board of Directors in their minute of December 15, 1961 noted that the Treasury Board was of the opinion that the estimated deficit for 1962-63 of \$232,500 should not be provided by an appropriation but should continue to be charged against the surplus account, which would thereby be reduced to a level of about \$400,000. The Treasury Board noted that this did not establish a firm ruling and that the subject would be more fully reviewed in connection with the Main Estimates for 1963-64.

160. *Canadian National (West Indies) Steamships Limited*. This company, which was incorporated in 1927 under the Companies Act, 1906, c.79, for the purpose, among other things, of purchasing and operating vessels, hotels, docks, etc., ceased operations in 1958 on the sale of its then remaining eight vessels to Cuban interests. In 1960 the Governor in Council, under the provisions of the Financial Administration Act, ordered the deletion of the company's name from Schedule "D" of the Act as a proprietary corporation, and its addition to Schedule "C" thereof as an agency corporation. The head office of the company is now in Ottawa and its residual functions are performed by the staff of the Canadian Maritime Commission.

The agreement of sale of the company's fleet provided for an initial payment of \$560,000 and five equal annual instalments of \$448,000, making a total of \$2,800,000, with interest at 5% per annum on the unpaid balance. As security, the company holds an irrevocable letter of credit from Banco Cubano Del Comercio Exterior confirmed by the Bank of America. The initial payment and the first three annual instalments have been received, leaving a balance of \$896,000, excluding accrued interest, outstanding at December 31, 1961. This balance represents the two remaining instalments due in 1962 and 1963.

Transactions during the year related to the winding up of the company's affairs and have been recorded through the capital surplus account. Income credited to this account totalling \$158,000 comprised mainly war and other damage claims received and interest earned on the agreement of sale, deposits with the Receiver General and investments in bonds. Deductions from the account totalled \$2,390,000 including a loss of \$149,000 on the sale of the securities held in the investment account and dividends of \$2,228,000 paid to the Receiver General.

The Crown's remaining equity in the company at December 31, 1961 amounted to \$1,645,000 represented by the following:

Cash	\$ 13,000
Deposit with the Receiver General and accrued interest	734,000
Balance due under agreement of sale of vessels and accrued interest	912,000
	<hr/>
	1,659,000
Less: matured bonds unclaimed	14,000
	<hr/>
	<u>\$ 1,645,000</u>

An outstanding claim of \$96,000, filed with the War Claims Commission in respect of a loss due to enemy action, is not recorded on the balance sheet of the company as a receivable item because the amount of any further recovery is dependent on the adequacy of the War Claims Fund. On the other hand, no provision has been made in the accounts for a possible liability, estimated at approximately \$80,000, in respect of legal claims filed or pending for damages resulting from the company's operations in past years.

161. *Canadian Overseas Telecommunication Corporation*. The objects of this company, established in 1949 by the Canadian Overseas Telecommunication Corporation Act, now R.S., c. 42, are: to establish, maintain and operate external telecommunication

services for the conduct of public communications; to carry on the business of public communications; to improve the efficiency of telecommunication services generally; and to co-ordinate Canada's external telecommunication services with those of other parts of the Commonwealth. To these ends the Corporation, in 1950, acquired the external telecommunication facilities in Canada of Cable and Wireless Limited and Canadian Marconi Company Limited. The acquisition of these facilities provided cable and radio-telegraph circuits between Canada, the United Kingdom, Australia, New Zealand, New York and St. Pierre and Miquelon, and radio-telephone services with the United Kingdom, Newfoundland and the West Indies. The more recent of many major subsequent developments include the opening, in December 1961, of a multi-purpose, multi-channel cable between Canada and the United Kingdom, and the joint Commonwealth agreement to construct a trans-Pacific cable system between Canada and Australia via New Zealand, with the target date for completion set for late in 1963.

The equity of the Crown in the Corporation amounted to \$43,536,000 at March 31, 1962, an increase of \$7,309,000 over the equity at the end of the previous year, and comprised \$37,918,000 of advances for capital purposes and \$5,618,000 of accumulated surplus.

Loans to finance, in part, the capital requirements of the Corporation are provided by parliamentary appropriations. Capital expenditures amounted to \$12,009,000 towards which \$7,500,000 was advanced by the Crown and \$4,509,000 was provided out of accumulated earnings. As at March 31, 1962 the estimated cost of completing approved capital projects was approximately \$30,000,000 of which \$18,600,000 relates to the year ending March 31, 1963.

The following is a summary of the income and expense of the Corporation for the past two years:

	Year ended March 31	
	1962	1961
Income—		
Telephone, telegraph, telex, circuit rentals, etc.	\$ 9,484,000	\$ 7,273,000
Expense—		
Salaries, wages and employee benefits	2,304,000	2,163,000
Rental of circuits, etc.	1,135,000	949,000
Operation, maintenance and repairs—buildings, plant and equipment	789,000	540,000
Interest	921,000	517,000
Depreciation	1,709,000	1,056,000
Other	373,000	310,000
	7,231,000	5,535,000
Less: Estimated amount recoverable from Commonwealth Network	1,164,000	958,000
	6,067,000	4,577,000
	3,417,000	2,696,000
Deduct: Cost of additional pension benefits	94,000	—
Net profit before provision for income tax	3,323,000	2,696,000
Deduct: Provision for income tax	1,658,000	1,332,000
Net profit	\$ 1,665,000	\$ 1,364,000

Income increased by \$2,211,000, or approximately 30%, over that of the previous year, largely as a result of increased rental of telephone circuits and a full year's rental of a cable which came into service late in 1960. This increase was realized despite a 25% reduction in telephone rates between Canada and Great Britain with effect from November 1, 1961, and a similar reduction in the rate to Eire, effective January 1, 1962. The statement of income and expense for the year ended March 31, 1962 includes a non-recurring expense of \$94,000, duly approved by the Governor in Council, for the cost of additional pension benefits in respect of past service for employees formerly participating in pension plans of predecessor companies.

In last year's report we noted that the Corporation did not maintain detailed cost records which would allow a comparison of the revenue from individual traffic operations with the related operating costs for the purpose of measuring operating efficiency and profitability. This situation has been rectified to the extent that a statement of profit and loss, by services, was prepared for the year ended March 31, 1962.

162. *Canadian Patents and Development Limited*. Section 17 of the Research Council Act, R.S., c.239, provides for the incorporation of one or more companies by the National Research Council for the purpose of exercising certain of the powers conferred upon the Council. Under this authority Canadian Patents and Development Limited was incorporated in 1947 under the Companies Act, 1934, for the purpose of making available to industry through licensing arrangements, the inventions and new processes developed by the Council. The services of the company, which is located in Ottawa, are available to government departments, publicly supported institutions and universities. The company at March 31, 1962 was staffed by four employees of the Council, which is reimbursed for their services.

At March 31, 1962 the Crown's equity in the company was \$453,000, comprising \$296,000 of capital stock and surplus of \$157,000.

A summary of the company's income and expense for the year ended March 31, 1962 compared with the previous year follows:

	Year ended March 31	
	1962	1961
Income—		
Royalties, licensing fees, etc.	\$ 277,000	\$ 191,000
Less: Costs of licensing rights and related technical assistance, etc.	12,000	29,000
	265,000	162,000
Other income	14,000	11,000
	279,000	173,000
Expense—		
Salaries	27,000	26,000
Services provided by National Research Council	30,000	—
Patent attorneys' fees and other patent expense	33,000	29,000
Awards to inventors	14,000	13,000
Other expenses	33,000	13,000
	137,000	81,000
Net profit	\$ 142,000	\$ 92,000

During the year under review the National Research Council billed the company for services for which no charge had been made in prior years, namely, for the part-time services of officers involved in the processing of patents and certain secretarial and accounting services. The increase in "other expenses" during the year was more than accounted for by a grant of \$25,000 to help support applied research work in metallurgy at a university from which the company had received a number of patentable inventions.

163. *Cornwall International Bridge Company Limited.* This company was incorporated in 1949 under the Companies Act, 1934, by private shareholders, for the purpose of operating a toll highway over the St. Lawrence River between Cornwall and Roosevelt, N.Y., on railroad bridges leased from two railway companies. These railroad bridges were acquired by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a wholly-owned United States corporation) in connection with the construction of the Seaway, and have been replaced by two high-level highway bridges. The outstanding stock of the bridge company was purchased jointly by the Seaway entities in 1957 for \$480,000, of which \$200,000 was paid by the Authority. The shares of the company are held by the Authority, one-half of them being held in trust for the Corporation.

Each Seaway entity is represented by four directors on the board of the bridge company. By agreement between the Authority and the Corporation, the annual revenues of the bridge company have been applied in the following order of priority:

- (1) in payment of all operating, administrative and general expenses of the bridge company;
- (2) in amortization of the cost of constructing the North Channel bridge by the Authority, plus interest, over a period of fifty years (any amount due under this provision which is not paid is to be recorded as a liability of the bridge company and paid prior to any distribution of future revenues);
- (3) in making distributions on a fifty-fifty basis between the Authority and the Corporation.

A comparative summary of the operations of the company for its past two financial years follows:

	Year ended September 30	
	1961	1960
Income		
Bridge tolls	\$ 348,000	\$ 333,000
Other	3,000	4,000
	<hr/> 351,000	<hr/> 337,000
Expense		
Salaries and wages	49,000	41,000
Maintenance and repairs	25,000	25,000
Rental of toll collection machines	13,000	3,000
Municipal taxes and grants	12,000	12,000
Other expenses	42,000	44,000
	<hr/> 141,000	<hr/> 125,000

	Year ended September 30	
	1961	1960
Provision for amortization of cost of North Channel bridge, owned by The St. Lawrence Seaway Authority	130,000	56,000
	<hr/>	<hr/>
	271,000	181,000
	<hr/>	<hr/>
Fee for management, use of right-of-way over bridges, etc., payable to The St. Lawrence Seaway Authority (50% in trust for the Saint Lawrence Seaway Development Corporation)	\$ 80,000	\$ 156,000
	<hr/>	<hr/>

The provision of \$130,000 for amortization of the cost of the North Channel bridge, over fifty years at 4% interest, was based on construction costs incurred by the Authority to September 30, 1960 which, with interest, amounted to \$2,800,000.

The new North Channel bridge, built and owned by The St. Lawrence Seaway Authority, was opened to traffic on July 3, 1962. On that date the Authority took over the operation of the toll bridge system and the Cornwall International Bridge Company Limited ceased active operations and is now in the process of winding up. A new company which is in the process of incorporation under section 24A of the St. Lawrence Seaway Authority Act is to manage and operate the toll bridge system (now known as the Seaway International Bridge) under similar terms and conditions, with regard to the distribution of the revenue, as did the Cornwall International Bridge Company Limited.

The shareholders' equity in the company at September 30, 1961 totalled \$110,000, comprising \$50,000 of capital stock and a surplus of \$60,000. This equity is not likely to be fully realized on winding up since certain of the assets of the company in the form of buildings, roads and a bridge over the Raquette River may be abandoned or given to municipalities. These assets had a net book value of \$59,000 at September 30, 1961.

164. *Crown Assets Disposal Corporation.* In 1944 the Surplus Crown Assets Act established the War Assets Corporation, and a 1949 amendment to the Act provided that thereafter the Corporation was to be known as the Crown Assets Disposal Corporation. With certain specified exceptions, the Corporation is responsible for the disposal of the surplus assets of all government departments and most of the Crown corporations and agencies. Also, the Corporation has entered into agreements with the United Kingdom and the United States whereby it disposes of surplus property of these countries located in Canada. The head office of the Corporation is located in Ottawa and sales offices are maintained in a number of other cities throughout Canada.

As in the previous year the Corporation was authorized by the Governor in Council to retain 4% of the net proceeds of sales and other monies received from sales of lands and buildings, and 10% of the net proceeds of all other sales, to meet its operating

expenses. A summary of the income and expense of the Corporation for the year ended March 31, 1962, compared with the previous year, follows:

	Year ended March 31	
	1962	1961
Income		
Percentage of net proceeds of sales made and of other income earned, etc.	\$ 955,000	\$ 810,000
Expense		
Salaries	427,000	451,000
Employees' welfare benefits	44,000	42,000
Rent	51,000	40,000
Telephone, telegrams and postage	28,000	29,000
Printing, stationery and office supplies	26,000	27,000
Travel	12,000	15,000
Other expenses	12,000	12,000
	600,000	616,000
Excess of income over expense	\$ 355,000	\$ 194,000

The decrease in salaries was due mainly to staff economies: at March 31, 1962 the Corporation employed 99 persons—a reduction of seven from the preceding year. The increase in rent is the result of a higher rental rate for the new Ottawa headquarters premises to which the Corporation moved in May 1961.

Pursuant to section 81 of the Financial Administration Act, the Corporation was directed in 1959 and subsequently thereafter to pay to the Receiver General at intervals of not longer than six months, all of the surplus in its general account in excess of \$100,000. The \$355,000 excess of income over expense for the year under review was, in consequence, paid to the Receiver General, leaving the balance in the surplus account unchanged at \$100,000.

The Corporation's agency account shows the Crown's equity at March 31, 1962 to be \$7,242,000 compared with \$4,929,000 at the end of the preceding year. The equity was largely represented by amounts receivable under long-term interest-bearing sales agreements totalling \$6,370,000.

The transactions in the agency account during the year ended March 31, 1962, compared with the previous year, are summarized as follows:

	Year ended March 31	
	1962	1961
Proceeds from sales, etc.:		
Government of Canada	\$12,355,000	\$ 7,908,000
Other principals	631,000	1,471,000
Interest earned	243,000	198,000
	13,229,000	9,577,000
Less: Direct costs relating to sales	39,000	55,000
	13,190,000	9,522,000

	Year ended March 31	
	1962	1961
Deduct:		
Percentage of net proceeds from sales, etc., retained by the Corporation	955,000	810,000
Remittances to		
Receiver General of Canada	9,355,000	8,118,000
Others	556,000	1,368,000
	<u>9,911,000</u>	<u>9,486,000</u>
	<u>10,866,000</u>	<u>10,296,000</u>
Increase in equity:		
Government of Canada	2,313,000	(728,000)
Others	11,000	(46,000)
	<u>\$ 2,324,000</u>	<u>\$ (774,000)</u>

165. *Defence Construction (1951) Limited.* This is a Crown-owned civilian agency which was incorporated in 1951 under the Companies Act, 1934, pursuant to the authority in section 7 of the Defence Production Act, now R.S., c. 62. The company is responsible for awarding and supervising contracts for defence construction projects. During the year ended March 31, 1962 some \$86 million was expended on such projects from funds provided by annual appropriations for the Department of National Defence.

The major portion of the company's administrative expense is provided for by annual parliamentary appropriations under the Department of Defence Production. The following is a comparative summary of the operating results for the past two years:

	Year ended March 31	
	1962	1961
Expense—		
Salaries and living allowances	\$ 2,683,000	\$ 2,479,000
Travel and removal	302,000	244,000
Employees' welfare benefits	190,000	176,000
Other expenses	315,000	265,000
	<u>3,490,000</u>	<u>3,164,000</u>
Income—		
Reimbursement for engineering and administrative services	27,000	133,000
Other income	3,000	1,000
	<u>30,000</u>	<u>134,000</u>
Net expense	<u>\$ 3,460,000</u>	<u>\$ 3,030,000</u>

An increase of 49 in the number of employees and a salary increase granted engineering personnel largely accounts for the increase in salaries and living allowances. Increased activity in radar site construction in western Canada and completion of other construction in the North occasioned the increase in travel and removal expense. Printing and stationery previously provided without charge by the Department of Defence Production

was paid for by the company directly to the Queen's Printer. This, in addition to the purchase of an accounting machine, largely accounts for the increase of \$50,000 in "other expenses".

The completion of the Northern Ontario section of the all-Canadian gas pipe line and the termination of an agreement whereby the company recovered a portion of its expenses for technical services rendered on construction projects under the Colombo Plan, resulted in the considerable decrease in income earned by way of reimbursement for engineering and administrative services.

166. *Eldorado Aviation Limited.* This company, a wholly-owned subsidiary of Eldorado Mining and Refining Limited, was incorporated in 1953 under the Companies Act. With headquarters in Edmonton, the company provides air transportation services exclusively on behalf of the parent company and Northern Transportation Company Limited, which share the cost of operations on a cost-per-ton mileage basis.

The equity of Eldorado Mining and Refining Limited at December 31, 1961 comprised capital stock of \$28,000 and surplus of \$228,000. The following is a comparative summary of the expenses of the company for its past two financial years:

	Year ended December 31	
	1961	1960
Salaries, wages and contributions to employees' pension plan	\$ 263,000	\$ 288,000
Supplies	180,000	238,000
Provision for depreciation	92,000	107,000
Repairs	88,000	99,000
Insurance	63,000	65,000
Other expenses	64,000	95,000
	<u>\$ 750,000</u>	<u>\$ 892,000</u>

The expenses for 1961 were recovered or recoverable as follows: Eldorado Mining and Refining Limited, \$637,000; Northern Transportation Company Limited, \$103,000; and other, \$10,000. The decline in expenses in 1961 reflects a reduction in air freight and in hours flown caused by the shut-down in 1960 of the Port Radium mining operations of the parent company.

167. *Eldorado Mining and Refining Limited.* This company was incorporated in 1945 under the Companies Act following expropriation by the Government of Canada in 1944 of the shares of Eldorado Gold Mines Limited, a privately-owned company incorporated in 1927. The head office of the company is in Ottawa, with the mine located in the vicinity of Uranium City, Saskatchewan, and the refinery at Port Hope, Ontario.

The principal functions of the company are to produce, refine and sell or dispose of uranium and other allied products. In 1948 it was also charged with the responsibility for the purchase and disposal of all uranium produced in Canada, although in recent years private producers have been free, under certain circumstances, to sell uranium without reference to the company. Certain uranium concentrates were procured from other

producers and sold by the company at cost to the United States Atomic Energy Commission and the United Kingdom Atomic Energy Authority to the extent of \$177,600,000 during the year ended December 31, 1961.

The Crown's equity in the company at December 31, 1961 comprised capital stock of \$6,586,000 and surplus of \$42,472,000. During the year dividends of \$5,000,000 were paid to the Receiver General compared with \$4,935,000 in the preceding year.

A comparative summary of income and expense for the past two financial years follows:

	Year ended December 31	
	1961	1960
Income—		
Sales of uranium concentrates, uranium metal and related products, and revenue from refining services	\$29,607,000	\$36,186,000
Miscellaneous income	728,000	637,000
	<u>30,335,000</u>	<u>36,823,000</u>
Expense—		
Mining, refining and other expenses	15,535,000	18,926,000
Purchased ores and concentrates	497,000	413,000
Provision for depreciation	3,900,000	3,876,000
Amortization of cost of acquiring rights to deliver concentrates on cancellation of contract with another producer	4,178,000	5,068,000
Amortization of pre-production, mine development and other deferred expenditures	1,102,000	766,000
Reduction of value of inventories	785,000	1,600,000
	<u>25,997,000</u>	<u>30,649,000</u>
	4,338,000	6,174,000
Provision for income tax	2,125,000	2,700,000
Net income	<u>\$ 2,213,000</u>	<u>\$ 3,474,000</u>

A \$6,967,000 decrease in sales of uranium concentrates was offset, to a minor degree, by an increase in revenue from refining services of \$388,000 for the refining of approximately one million pounds more uranium concentrates for the United States Atomic Energy Commission than in the previous year.

The decrease in mining, refining and other expenses is a reflection of the reduction in sales of uranium concentrates.

The green salt plant and the uranium metal plant at the Port Hope Refinery were idle during 1960 and for the greater part of 1961. Depreciation was not provided on these plants during 1960 but \$284,000 was provided in 1961. Otherwise the manner in which the provision for depreciation was calculated remained basically unchanged from 1960.

In March 1960 the company acquired, at a cost of \$19 million, the rights of another uranium producer to deliver concentrates to the United States Atomic Energy Commission. The cost is being written off on a pro-rata basis against the production remaining to

be supplied out of the Beaverlodge mine. After amortizing \$4,178,000 in 1961, the sum of \$9,823,000 remained to be written off by April 1965.

The amortization of pre-production, mine development and other deferred expenditures continued to be at the rate (established in 1960) of 30 cents per pound of uranium oxide produced. The increase of \$336,000 is more than accounted for by the inclusion in 1961 of the amortization of other items which were classified as "Mining, Milling and Refining" in the previous year, namely: purchase price of mining rights contiguous to Beaverlodge property, \$155,000; preliminary costs relating to construction of green salt pilot plant, \$152,000; and hydro-electric expansion at Beaverlodge, \$69,000.

The reduction in valuation of inventories comprises:

Port Radium—general, leach plant and commissary stores	\$ 85,000
Port Hope—uranium metal and allied products	700,000
	<hr/>
	\$ 785,000
	<hr/>

Following the shut-down of the Port Radium mine in 1960, substantial losses on disposal of inventories were considered inevitable by the management and accordingly these were reduced by \$639,000 in that year. The further write-off of \$85,000 in 1961 reduced these stores to the nominal value of one dollar. The inventory valuation of uranium metal and allied products at Port Hope was reduced by \$927,000 in 1960, and the further write-off of \$700,000 in 1961 revalued these products in accordance with the current market conditions.

168. *Export Credits Insurance Corporation.* This Corporation was established in 1944 by the Export Credits Insurance Act, R.S., c. 105, to provide insurance to Canadian exporters of goods and services against the risk of non-payment by foreign buyers. The Corporation is intended to operate on a self-sustaining basis from premiums charged on contracts of insurance. Where the Corporation is of the opinion that a proposed contract of insurance would impose upon it a liability for a term or in an amount in excess of that which it would normally undertake, the Governor in Council may, under section 21 of the Act, authorize the Corporation to enter into the proposed contract of insurance. In the event of a loss under this section (there have been none) the moneys required to discharge the liability are payable from unappropriated moneys in the Consolidated Revenue Fund. A 1959 amendment to the Act introduced section 21A under which the Corporation may, with the authority of the Governor in Council, provide financing for long term export sales of capital goods with funds available out of the Consolidated Revenue Fund. The Corporation's head office is in Ottawa with branch offices in Montreal and Toronto.

The Crown's equity in the Corporation at December 31, 1961 was \$17,502,000, consisting of share capital of \$5,000,000, capital surplus of \$5,000,000, earned surplus of \$1,493,000 and an underwriting reserve of \$5,000,000, together with advances and accrued interest totalling \$1,009,000 in respect of long term financing of sales agreements under section 21A of the Act. The Corporation held Government of Canada bonds having a par value of \$17,350,000.

Export sales insured by the Corporation on its own account during 1961 totalled \$66,000,000 and premiums earned amounted to \$566,000. Export sales insured under section 21 of the Act also totalled \$66,000,000 and premiums amounted to \$1,252,000 of which \$939,000 was remitted to the Receiver General and \$313,000 was retained by the Corporation in respect of expenses and overhead. At December 31, 1961 the liability of the Corporation under contracts of insurance issued and outstanding totalled \$235,013,000 of which \$168,902,000 was for contracts entered into under section 21 of the Act.

During 1961 the Corporation entered the field of direct financing of long term export sales of capital goods under authority of section 21A of the Act. Moneys required for this purpose are available to the Corporation out of the Consolidated Revenue Fund up to a limit of \$300,000,000. At December 31, 1961 the Corporation had signed agreements to finance export sales amounting to \$41,000,000 and had undertaken to guarantee negotiable instruments totalling \$21,220,000 with respect to completed sales. In addition, it had agreed in principle to finance \$114,000,000 of prospective sales.

The following is a comparative summary of operations for the Corporation's past two financial years:

	Year ended December 31	
	1961	1960
Income		
Premiums earned	\$ 744,000	\$ 756,000
Expense		
Salaries and benefits	221,000	192,000
Travel	15,000	15,000
Rents	17,000	11,000
Communications expense and credit reports	16,000	11,000
Stationery, printing and office expenses	18,000	9,000
Leasehold improvements and office removal expenses	24,000	—
Other	18,000	12,000
	329,000	250,000
	415,000	506,000
Policyholders' claims		
Recoveries	558,000	436,000
Payments	163,000	520,000
	395,000	(84,000)
Excess of premium income over expense and policyholders' claims (net)	810,000	422,000
Add: Interest on investments	678,000	626,000
	1,488,000	1,048,000
Deduct:		
Transfer to underwriting reserve	—	95,000
Provision for income tax	741,000	207,000
	741,000	302,000
Surplus for year, transferred to earned surplus account	\$ 747,000	\$ 746,000

The employment of staff for an Export Finance Division and the move to larger office quarters in September 1961 were largely responsible for the increase of \$79,000 in the Corporation's expenses which amounted to \$329,000 in 1961 as shown above.

The following is a summary of transactions during the year in respect of payments on policyholders' claims for losses:

Type of claim	Outstanding Jan. 1, 1961	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1961
Insolvency	\$ 269,000	\$ 9,000	\$ 1,000	\$ 9,000	\$ 268,000
Default	272,000	131,000	14,000	35,000	354,000
Exchange transfer	1,989,000	23,000	543,000	(13,000)	1,482,000
Other	1,000	—	—	—	1,000
	<u>\$ 2,531,000</u>	<u>\$ 163,000</u>	<u>\$ 558,000</u>	<u>\$ 31,000</u>	<u>\$ 2,105,000</u>

Of the amount of \$2,105,000 in claim payments shown above as outstanding at December 31, 1961, the Corporation anticipates making substantial recoveries, particularly in respect of those claims, amounting to \$1,482,000, which were paid because of exchange transfer difficulties in the buyers' countries.

In last year's report it was noted that the Corporation had requested an exporter to refund \$70,000 in respect of claims for accounts which later appeared to have been collected by his agent. The amount was refunded to the Corporation in March 1962.

169. *Farm Credit Corporation.* This Corporation was established in 1959 by the Farm Credit Act, 1959, c. 43, to succeed the Canadian Farm Loan Board which had operated since 1929. The purpose of the Corporation is to make, administer and supervise long term mortgage loans to farmers. The head office is in Ottawa and there are seven branch offices and 108 field offices throughout Canada.

At March 31, 1962 the equity of the Government of Canada in the Corporation amounted to \$218,530,000, comprising: capital, \$8,100,000; loans, \$201,871,000; accrued interest on loans, \$5,802,000; and reserve for losses, \$2,757,000. During the year under review the Government paid the Corporation \$1,700,000 to increase its capital and advanced a further \$52,517,000 (net) by way of loans.

During the year, 6,027 loans (5,162 in 1960-61) were made to farmers to a total of \$68,887,000 (\$52,305,000 in 1960-61) and repayments amounted to \$15,197,000 (\$11,015,000 in 1960-61). Loans outstanding at the year-end, including accrued interest, amounted to \$217,898,000 compared with \$162,427,000 at the end of the previous year.

During the year the Corporation borrowed from the Government of Canada \$27,000,000 at an interest rate of 5% and \$27,500,000 at an interest rate of 4½%. This money was loaned to farmers at an interest rate of 5% which is the maximum rate set by section 16 of the Farm Credit Act. The money borrowed at 5% during the year brings to \$96,300,000 the total of amounts loaned to farmers at an interest rate of 5%, which was borrowed at interest rates of 5% (\$65,500,000) and 5¾% (\$30,800,000) since

April 1, 1959. In addition to a direct loss of \$3,000,000 in interest during the period of repayment of the \$30,800,000 that was borrowed at 5¾%, these interest rates provide no margin to meet administrative expenses and losses on loans.

Section 15 of the Act requires the Corporation to establish a reserve out of which may be paid "any losses sustained by the Corporation in the conduct of its business". The Corporation is required to credit to this reserve the net earnings of each year until the reserve is equal to the capital of the Corporation, which amounted to \$8,100,000 at March 31, 1962.

In the years up to March 31, 1960 the reserve for losses had been built up to an amount of \$3,749,000, including \$3,486,000 accumulated by the predecessor corporation to March 31, 1959. However, the excess of expense over income in the years 1960-61 and 1961-62 had reduced the reserve to a balance of \$2,757,000 at March 31, 1962. As further annual operating losses are in prospect, consideration should be given to the means whereby these losses may be covered without further depleting the reserve, and also to the manner in which the reserve can be brought up to the equivalent of the capital of the Corporation as contemplated by section 15 of the Act.

The following is a comparative summary of the income and expense of the Corporation for the past two years:

	Year ended March 31	
	1962	1961
Income		
Interest earnings	\$ 9,152,000	\$ 6,655,000
Deduct: Interest on loans from the Government of Canada	7,867,000	5,452,000
	<u>1,285,000</u>	<u>1,203,000</u>
Appraisal, supervision and legal fees	406,000	377,000
	<u>1,691,000</u>	<u>1,580,000</u>
Expense		
Salaries and employee benefits	1,817,000	1,213,000
Travel	216,000	107,000
Office accommodation	129,000	117,000
Fees and expenses of outside appraisers	91,000	173,000
Printing, stationery and office supplies	80,000	89,000
Postage, express, telephone and telegraph	59,000	40,000
Other	75,000	44,000
	<u>2,467,000</u>	<u>1,783,000</u>
Net loss carried to reserve for losses	\$ 776,000	\$ 203,000

The increase of \$684,000 in expenses for the year ended March 31, 1962 resulted largely from the continued growth in lending activity and the expansion of the Corporation which has resulted in an increase in staff from 183 at March 31, 1960 to 308 at March 31, 1961, and 388 at March 31, 1962.

170. *The National Battlefields Commission.* This Commission, constituted by the National Battlefields at Quebec Act, 1908, c. 47, with the object of acquiring and preserving the historic battlefields at Quebec, comprises nine members of whom seven are appointed by the Governor in Council and one by each of the provinces of Ontario and Quebec.

Since 1958 the Commission has been financed by annual parliamentary appropriations rather than, as formerly, by statutory grants extended from time to time under the constituting Act. At March 31, 1962 the proprietary equity of the Crown in the Commission amounted to \$1,461,000 represented by an investment in capital assets of \$1,445,000 and working capital of \$16,000. The increase of \$16,000 over the equity at March 31, 1961 is accounted for by an increase of \$19,000 in capital assets and a decrease of \$3,000 in working capital during the year.

The following is a summary of expenses for the year under review compared with those of the preceding year:

	Year ended March 31	
	1962	1961
Salaries, wages and related expenses	\$ 151,000	\$ 139,000
Policing services	12,000	—
Operating supplies and nursery stock	10,000	9,000
Heat, light and power	10,000	11,000
Provision for professional services	2,000	5,000
Other expenses	5,000	7,000
	<hr/>	<hr/>
	190,000	171,000
Capital outlays	24,000	22,000
	<hr/>	<hr/>
	\$ 214,000	\$ 193,000
	<hr/>	<hr/>

The increase in salaries, wages and related expenses is attributable mainly to wage increases granted during the year under review. The \$12,000 expense for policing services represents payments during the year to the Canadian Corps of Commissionaires for supervisory services within the park. This supervision had previously been provided by the Royal Canadian Mounted Police at no charge to the Commission but was withdrawn due to staff limitations.

The expenses of the Commission during the year under review, shown above in the amount of \$214,000, were financed to the extent of \$211,000 by Vote 289, Appropriation Act No. 5, 1961, with the balance of \$3,000 being provided by miscellaneous income and utilization of surplus.

Funds contributed by provincial governments, municipalities and others in the years following the constitution of the Commission in 1908, which may be used only for the acquisition of land and with prior parliamentary approval, amounted to \$28,000 at March 31, 1962. The only change in the balance of this account over the past thirty years has been the increase arising out of investment earnings.

Levies by the City of Quebec for snow removal tax, for which the City has been billing the Commission annually since 1955, totalled more than \$450,000 by the end of the year under review. Since the Commission regards the battlefields as a park and therefore not subject to a tax of this nature, it has lodged appeals against the assessment of these levies, and has made no provision for them in its accounts. Recent decisions in the Exchequer Court of Canada and the Court of Appeal of Quebec in similar cases appear to support the Commission's contention.

171. *National Capital Commission.* This Commission was established by the National Capital Act, 1958, c. 37, to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission, 1899.

The objects and purposes of the Commission under the Act are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance". Subject to the control exercised by the Governor in Council, the Commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; undertaking joint projects with municipalities or making grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites. The Commission consists of 20 members appointed by the Governor in Council from across Canada.

The proprietary interest of the Government of Canada in the Commission at March 31, 1962 totalled \$70,373,000, represented by: unexpended balance of loans, \$901,000; inventories of tools, equipment and supplies, \$213,000; payments for land purchases under negotiation, \$4,281,000; and cost of capital assets, \$64,978,000.

The Commission's activities are financed by annual parliamentary appropriations, drawings from the National Capital Fund and loans from the Government of Canada, along with incidental revenues from rentals, etc. A summary of the expenditure and other transactions for the past two years is as follows:

	Year ended March 31	
	1962	1961
<u>Operation and maintenance of parks, parkways and grounds adjoining Government buildings at Ottawa and Hull and general administration</u>		
Expenditures	\$ 2,579,000	\$ 2,117,000
Provided for by:		
Parliamentary appropriations	\$ 2,317,000	\$ 1,911,000
Revenue	262,000	206,000
	<u>\$ 2,579,000</u>	<u>\$ 2,117,000</u>

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	Year ended March 31	
	1962	1961
<u>National Capital Fund</u>		
Balance of Fund in hands of Commission at beginning of year	\$ 1,000	\$ 521,000
Add:		
Amounts drawn from Fund provided by parliamentary appropriations	4,250,000	3,000,000
Proceeds from sales of property	682,000	193,000
	<u>4,932,000</u>	<u>3,193,000</u>
	4,933,000	3,714,000
Deduct:		
Expenditures—		
Capital outlays for parks, parkways, railway lines and structures, etc.	2,968,000	2,259,000
Repayment of loans to acquire property now in use—Queensway	345,000	—
Maintenance of land and rehabilitation works	112,000	92,000
Contributions to the City of Ottawa and other municipalities towards the cost of constructing roads, bridges and sewers ...	1,206,000	1,362,000
	<u>4,631,000</u>	<u>3,713,000</u>
Balance of Fund in hands of Commission at end of year	\$ 302,000	\$ 1,000
<u>Acquisition of property in the National Capital Region through loans provided by the Government of Canada</u>		
Unexpended balance of loans at beginning of year	\$ 684,000	\$ 450,000
Add:		
Government of Canada loans (net)	6,247,000	7,489,000
Proceeds from sale of property (including \$345,000 charged to National Capital Fund)	3,553,000	
	<u>9,800,000</u>	<u>7,489,000</u>
	10,484,000	7,939,000
Deduct:		
Expenditures for acquisition of property	9,583,000	7,255,000
Unexpended balance of loans at end of year	\$ 901,000	\$ 684,000
<u>Interest charges on outstanding Government of Canada loans</u>		
Interest on loans	\$ 1,505,000	\$ 1,097,000
Provided for by:		
Parliamentary appropriation	\$ 1,304,000	\$ 940,000
Net revenue from rentals of property and interest earnings	201,000	157,000
	<u>\$ 1,505,000</u>	<u>\$ 1,097,000</u>

The Commission's capital budget for 1961-62 was approved by Order in Council P.C. 1961-583 of April 20, 1961 and was laid before Parliament by the Minister of Public Works in accordance with section 80 of the Financial Administration Act. However, a revised (though reduced) capital budget approved by Order in Council P.C. 1962-52 of January 11, 1962 was not laid before Parliament.

In paragraph 66 of this report, reference is made to interest paid by the Commission out of funds provided to it by means of annual parliamentary appropriations.

172. *National Harbours Board.* This Board was established in 1936 by the National Harbours Board Act, now R.S., c. 187, and has jurisdiction over the harbours of Halifax, Saint John, Chicoutimi, Three Rivers, Montreal and Vancouver, together with responsibility for the administration, management and control of Churchill harbour and the grain elevators at Prescott and Port Colborne. The head office of the Board is in Ottawa.

The proprietary equity of the Government of Canada at December 31, 1961 is shown on the Board's balance sheet as follows:

Assets transferred to the Board on its establishment and subsequently		\$ 56,917,000
Loans and advances		290,937,000
Interest in arrears on loans and advances		64,786,000
Reserves:		
Replacement of capital assets	\$ 88,370,000	
Fire and general insurance	4,451,000	
Workmen's compensation	1,758,000	
Special maintenance	730,000	
		<u>95,309,000</u>
		507,949,000
Deduct: Deficit—		
Balance at beginning of year	67,561,000	
Add: Churchill Harbour—sundry expenditures written off	2,223,000	
	<u>69,784,000</u>	
Deduct: Profit for the year	2,000	
Balance at end of year		<u>69,782,000</u>
		<u><u>\$ 438,167,000</u></u>

During the year under review, loans and advances increased by \$11,675,000 and interest in arrears by \$5,778,000, to the totals of \$290,937,000 and \$64,786,000 shown above. It was observed in last year's report (paragraph 132) that there appears little prospect of the Board being in a position to meet principal and interest obligations of this magnitude on the basis of the present level of its operations, and it was suggested that consideration be given to reconstituting its financial structure on a more realistic basis.

Under a tri-partite agreement dated May 5, 1928 the Province of Quebec and the City of Montreal agreed to contribute to the Board one-third of any annual deficit arising from the operations of the Jacques Cartier Bridge to a maximum of \$150,000 each. The Province and the City both refused to make their required contributions towards the annual deficits that occurred during the period from 1944 to 1949 (no operating deficits were incurred by the Bridge between 1950 and 1961, but tolls were discontinued effective June 1, 1962). The Board initiated legal proceedings against the City of Montreal for its

share of the contributions required under the agreement and the Supreme Court of Canada, upholding the decisions of Lower Courts, rendered judgment on December 9, 1952 in favour of the Board. Meanwhile, no payments have been made by the Province of Quebec whose indebtedness to the Board under the agreement amounted to \$744,425 at December 31, 1961 as shown on the balance sheet. Were interest accrued on this balance at the rate set by the Supreme Court of Canada in its judgment against the City of Montreal, the amount due by the Province would have exceeded \$1,250,000 at the year-end.

The liability item for "contractors' security and other deposits" on the Board's balance sheet as at December 31, 1961, includes rentals amounting to \$127,000 collected over many years for certain areas at Coal Harbour, Vancouver. As noted in last year's report, the ownership of the areas in question has been in dispute between the Board and the Canadian Pacific Railway Company since the Board's inception in 1936 and between the Board's predecessor and the Railway Company since 1880. It is understood that the C.P.R. was holding in escrow the sum of \$208,000 at the year-end.

The following is a comparative summary of the operations of the Board for its past two financial years:

	Year ended December 31	
	1961	1960
Operating income—		
Harbours	\$ 3,243,000	\$ 2,946,000
Wharves and piers	9,366,000	8,822,000
Grain elevator systems	7,739,000	7,104,000
Cold storage systems	1,172,000	1,078,000
Permanent sheds	1,843,000	1,779,000
Railway systems	731,000	810,000
Jacques Cartier Bridge	3,498,000	3,354,000
Miscellaneous services	1,426,000	1,246,000
	<u>29,018,000</u>	<u>27,139,000</u>
Operating and administrative expenses—		
Harbours	3,775,000	3,409,000
Wharves and piers	871,000	1,081,000
Grain elevator systems	5,416,000	5,229,000
Cold storage systems	1,141,000	1,104,000
Permanent sheds	1,378,000	1,457,000
Railway systems	1,119,000	1,189,000
Jacques Cartier Bridge	694,000	658,000
Miscellaneous services	1,645,000	1,469,000
Administrative expenses	2,004,000	1,838,000
	<u>18,043,000</u>	<u>17,434,000</u>
Net operating income	10,975,000	9,705,000
Other income—		
Income from investments	2,520,000	2,476,000
Miscellaneous	170,000	178,000
	<u>13,665,000</u>	<u>12,359,000</u>

	Year ended December 31	
	1961	1960
Special charges—		
Provision for interest on loans and advances	8,759,000	8,596,000
Provision for replacement of capital assets	4,349,000	4,139,000
Other special charges	555,000	413,000
	<hr/>	<hr/>
	13,663,000	13,148,000
	<hr/>	<hr/>
Net profit (loss)	\$ 2,000	\$ (789,000)
	<hr/>	<hr/>

During the year there were no significant adjustments in the rates charged by the Board for its services, the increase in revenue being due to a general increase in business activity which in turn contributed to the increase in operating and administrative expenses for the year.

In 1958 a contract was awarded for the construction of a grain gallery following a fire at Lapointe Pier, Vancouver Harbour, and eventually payments under the contract exceeded \$480,000. Part of the contract, involving the construction of fourteen grain spouts, was sublet by the prime contractor. After the reconstructed section had been in operation about eighteen months, one of the grain spouts collapsed for no apparent reason. An X-ray examination revealed that a fracture had occurred at a welded joint, whereupon the remaining thirteen spouts were so examined and all were found faulty due to lack of weld penetration. The Board encountered difficulty in getting the prime contractor to undertake remedial repairs and, because of the urgent need for the facilities, authorized another contractor to repair the welds. The total cost amounted to \$17,000 and this sum was recorded by the Board as receivable from the prime contractor; however, the Board's files did not reveal any firm action ever having been taken to collect the amount. Instead, the Board negotiated with the sub-contractor and finally agreed to accept \$3,500 from a shareholder of the sub-contracting company, which was then in financial difficulties. The balance of the account was written off as uncollectable.

Additions to capital assets during 1961 aggregated \$25,347,000. Three cases were observed, involving expenditures in connection with capital assets, for which no benefit was received:

1. In July 1959 the Board awarded a contract in the amount of \$417,000 for the construction of a wharf at Quebec Harbour. During the course of the work large quantities of silt accumulated behind a newly constructed section of the wharf causing it to collapse. The contractor was then instructed to remove the collapsed section and rebuild it. Blame for the accumulation could not be attributed to the contractor who followed the Board's instructions at all times. The Chief Engineer accordingly recommended that the costs of removal of the collapsed section and the reconstruction costs be borne by the Board and additional payments of \$104,000 were made to the contractor.

Subsequently, in July 1961, it was discovered that the steel sheet piling of the wharf had visibly bulged. It then became necessary for the Board to rent equipment, at a cost of \$9,000, and excavate the material behind the complete length of the retaining wall and renew certain bolts (the contractor had set the bolts according to the design). Since the work was performed by the Board's own labour force, the full additional cost arising from failure of the bolts could not be definitely ascertained but the direct labour and materials cost \$65,000.

2. In June 1959 the Board entered into a contract for the construction of an extension to a sewer outlet at Montreal Harbour at an estimated cost of \$373,000, after providing \$30,000 for contingencies. When the contract was all but completed, the contractor submitted a claim for additional compensation for extra work and hardships arising from circumstances which he alleged were not shown, inferred nor capable of being foreseen in the plans or tender documents or on the actual site at the time of tendering. The Board presented the contractor's claim to a firm of consulting engineers for an opinion as to its merits. Except for a sum of \$13,000, involving work not included in the contract, the consultants recommended that the Board should not consider itself responsible. It was also the opinion of the Board's solicitor that any payment to the contractor beyond the \$13,000 for the extra work would be on an *ex gratia* basis.

However, the report of another consulting engineer recommended payment of the claim and, following further consideration of the matter, Executive approval was sought and obtained for payment of an *ex gratia* award of \$62,000 in addition to the cost of extras.

3. In 1956 the Board entered into an agreement with a firm of consulting engineers for the preparation of plans and specifications, engineering assistance and supervision of proposed works to be undertaken for improvements, additions and alterations to Grain Elevator No. 3 at Montreal. Early in 1957 the Board decided to erect a new elevator (Grain Elevator No. 4) rather than proceed with the proposed changes to the existing elevator. The Board then sought and obtained Executive approval to pay the consultants \$32,000 in respect of the original designs and drawings.

New plans and specifications for Grain Elevator No. 4 were then prepared by the consultants. At a later date, however, the design of the marine towers was changed and a storage annex project was abandoned, with the result that some of the plans had to be redrawn and certain plans and specifications were not used. With Executive approval, the consultants were then paid \$56,000 for redrawing plans and for plans and specifications designed but not used.

173. *Northern Canada Power Commission.* This Commission, which was established in 1948 and operates under the Northern Canada Power Commission Act, 1956, c. 44, consists of three members appointed by the Governor in Council and has its head office in Ottawa. The objects of the Commission are to construct and operate electric power plants and to supply power to mines and other users in the Northwest Territories and the Yukon Territory and, with the approval of the Governor in Council, in any other part of Canada. Hydro-electric plants are operated at Snare River, N.W.T., and at Mayo River and Whitehorse Rapids, Y.T., and thermal-electric stations are in operation at Fort Resolution, Fort Smith, Fort Simpson, Inuvik, Fort McPherson and Frobisher Bay, N.W.T. and at Field, B.C.

The proprietary equity of the Government of Canada, as shown on the Commission's balance sheet at March 31, 1962, follows:

	Year ended March 31	
	1962	1961
Advances:		
Under section 14 of the Act—for investigation of projects	\$ 50,000	\$ 50,000
Under section 15 of the Act—for capital expenditures, including accrued interest	19,104,000	19,680,000
Equity represented by depreciated value of public utilities at Inuvik, N.W.T., financed by advances under section 15 of the Act recoverable from funds to be appropriated by Parliament according to Order in Council P.C. 1957-36/626 of May 3, 1957	6,759,000	7,004,000
Reserve for contingencies, pursuant to section 10 of the Act	1,611,000	1,310,000
Reserve for extension, expansion and improvements, equivalent to expenditures incurred on acquisition of capital assets, as permitted under section 22 of the Act	228,000	212,000
Earned surplus	913,000	562,000
	<u>\$28,665,000</u>	<u>\$28,818,000</u>

During the year, in its capacity as agent for the Government of Canada in respect of loans made under the Atlantic Provinces Power Development Act, 1957-58, c. 25, advances aggregating \$3,237,000 were made to the provincial power commissions of Nova Scotia and New Brunswick. As of March 31, 1962 these loans totalled \$17,950,000.

A summary of income and expense for the past two years follows:

	Year ended March 31	
	1962	1961
Income—		
Sales of power	\$ 3,036,000	\$ 2,559,000
Income arising from construction, maintenance and operation of facilities for government departments and others	471,000	—
Sales of steam and water heat	375,000	321,000
Miscellaneous	106,000	140,000
	<u>3,988,000</u>	<u>3,020,000</u>
Expense—		
Operating and maintenance	1,823,000	1,228,000
Administrative	227,000	178,000
Interest on advances from the Government of Canada	775,000	498,000
Provision for depreciation (equivalent to annual repayment of advances from Government of Canada)	494,000	569,000
	<u>3,319,000</u>	<u>2,473,000</u>
Net income	<u>\$ 669,000</u>	<u>\$ 547,000</u>

The increases in both income and expense are largely explained by the fact that the accounts for 1961-62 reflect revenue of \$471,000, and related direct expenditures of \$421,000, arising from the construction, maintenance and operation of facilities for government departments and others, whereas in the preceding year only net results were recorded. In addition, the continued rise in consumer demand for power resulted in an increase in gross revenue and related expenses. Additional generating units at Snare River and Fort Resolution, which went into operation during 1960 were operated for the full twelve months during the year ended March 31, 1962.

In last year's report it was observed that the Commission should place greater emphasis on keeping the recording of transactions on a current basis. During the year under review some improvement was found in the recording of transactions and management has undertaken to continue its efforts in this direction.

174. *Northern Ontario Pipe Line Crown Corporation.* This Corporation was established by the Northern Ontario Pipe Line Crown Corporation Act, 1956, c. 10, for the purpose of constructing the Northern Ontario section of the all-Canadian gas pipe line, and leasing (subject to approval by the Governor in Council) the said section, on completion, to Trans-Canada Pipe Lines Limited, with an option to purchase.

Section 6 of the Act authorized the Minister of Finance, at the request of the Corporation and with the approval of the Governor in Council, to make loans, bearing interest at not less than $3\frac{1}{4}\%$, to the Corporation for the construction of the facilities—with \$130 million being the maximum amount of these loans which could be outstanding at any time. At December 31, 1961, \$121,980,000 was outstanding (at an interest rate of $3\frac{1}{2}\%$ per annum), a decrease of \$3,020,000 from the preceding year, being the net result of additional loans of \$4,205,000 and repayments of \$7,225,000.

At December 31, 1961 the capital cost of the Northern Ontario section amounted to \$129,816,000 comprising assets acquired or in course of construction of \$119,823,000, and engineering, administrative and financing expenses of \$9,993,000.

In October 1958 the Corporation entered into an agreement to lease the Northern Ontario section to Trans-Canada Pipe Lines Limited for a period of 25 years, with an option to purchase the facilities, exercisable within the period of the lease agreement. Under its terms all the expenses of operation, repairs and maintenance, taxes and other expenses of upkeep are borne by the lessee.

At December 31, 1961 the Corporation's surplus account stood at \$365,000 compared with \$219,000 at the end of the preceding year, an increase of \$146,000. This increase was accounted for by the \$151,000 difference between \$4,461,000 interest earned in accordance with the lease agreement with Trans-Canada Pipe Lines Limited and \$4,310,000 interest on loans from the Government of Canada, less sundry operating expenses of \$5,000.

In accordance with a 1957 agreement, detailed accounting records have been maintained by Trans-Canada Pipe Lines Limited who have supervised all construction work

and costs under the over-all engineering supervision of Defence Construction (1951) Limited. As expenditure vouchers are certified by the former company and approved by the latter before payment by the Corporation, only controlling accounts needed to be kept by the Corporation.

As construction of the Northern Ontario section of the pipe line was deemed to have been completed on March 31, 1961, the Corporation's full-time employees were released. Any administrative work required is now being performed by personnel of the Department of Defence Production and Defence Construction (1951) Limited on a part-time basis, without charge to the Corporation.

175. *Northern Transportation Company Limited.* This company is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Northern Transportation (1947) Limited was incorporated as a private company, under the Companies Act, 1934, by letters patent dated November 27, 1947 to take over the business and undertaking of an Alberta company, whose shares had been acquired when the Government expropriated the stock of Eldorado Mining and Refining Limited in 1944. The corporate name was changed to Northern Transportation Company Limited in 1952. With headquarters in Edmonton, its activities have been almost wholly confined to the Mackenzie River water system and the adjacent area of the Arctic Ocean.

The equity of Eldorado Mining and Refining Limited at December 31, 1961 was \$6,027,000, comprising capital stock of \$152,000, surplus of \$5,375,000 and a reserve for marine insurance of \$500,000.

The following is a comparative summary of the operations of the company for its last two financial years:

	Year ended December 31	
	1961	1960
Income—		
Freight earnings	\$ 2,458,000	\$ 2,728,000
Miscellaneous income	205,000	151,000
	<u>2,663,000</u>	<u>2,879,000</u>
Expense—		
Operating expenses	1,348,000	1,817,000
Provision for depreciation	527,000	704,000
Administrative expenses	222,000	293,000
	<u>2,097,000</u>	<u>2,814,000</u>
Operating profit	566,000	65,000
Provision for income tax	312,000	5,000
Net profit	<u>\$ 254,000</u>	<u>\$ 60,000</u>

The reduction of \$270,000 in freight earnings during 1961 is partly due to the completion of construction at Inuvik on the abandonment of the former townsite at Aklavik.

There accordingly was no revenue during the year comparable to that obtained in preceding years for the transportation of new construction material and equipment to the Inuvik townsite. The Port Radium mining operation of Eldorado Mining and Refining Limited, which was located at Great Bear Lake, was shut down in September 1960 and caused a reduction in freight tonnage and revenue which was applicable to the full year in 1961.

In anticipation of the reduction in service requirements and freight earnings, the company put into effect a cost cutting policy including the withdrawal of certain vessels from service, and the postponement of repairs to such time as the vessels might again be in service. A considerable saving in operating expenses was thereby effected and largely accounted for the reduction of \$717,000 in expenses during the year.

176. *Park Steamship Company Limited.* This company, incorporated under the Companies Act, 1934, for the purpose of supervising the operation of Crown-owned cargo vessels, ceased operations when the "Park" fleet was sold in 1946-47. Its current activities are limited to the settlement of occasional claims for compensation by seamen for injuries that had been sustained during the operating period, and are attended to by the staff of the Canadian Maritime Commission.

177. *Polymer Corporation Limited and subsidiary companies.* Polymer Corporation Limited was incorporated in 1942 under the Companies Act, 1934, pursuant to section 6 of the Department of Munitions and Supply Act, 1939, c. 3, as amended, 1940, c. 31. At December 31, 1961 there were two subsidiary companies: Polymer Corporation (SAF), incorporated under the laws of France in January 1961, in which Polymer holds a 95% equity and the Banque de Paris et des Pays-Bas the remaining 5%; and Polysar Belgium S.A., a wholly-owned subsidiary incorporated under the laws of Belgium in December 1961. The company manufactures synthetic rubber and chemicals at Sarnia where the head office is also situated. The plants of the subsidiary companies were not yet in operation at the year-end.

The equity of the Crown in Polymer Corporation Limited and its subsidiary companies at the year-end amounted to \$71,820,000, consisting of capital stock of \$30,000,000 and retained earnings of \$41,820,000. During the year under review, dividends of \$3,000,000 were paid to the Receiver General, the same amount as in the previous year.

The results of operations for the past two years are set out in the summary which follows. Since neither of the subsidiary companies had commenced operations by December 31, 1961, the summary reflects entirely the results of operations of the parent company for both years:

	Year ended December 31	
	1961	1960
Sales	\$87,679,000	\$85,257,000
Other income	835,000	658,000
	<u>88,514,000</u>	<u>85,915,000</u>

	Year ended December 31	
	1961	1960
Cost of sales	64,308,000	62,742,000
Selling, administrative and research expenses	4,144,000	3,672,000
	68,452,000	66,414,000
Net income before provision for income tax	20,062,000	19,501,000
Provision for income tax	9,842,000	9,650,000
Net income	\$10,220,000	\$ 9,851,000

The expansion of the company's sales activities into overseas markets noted in last year's report continued during the year under review when export sales amounted to 71% of the total.

Additions to fixed assets during the year amounted to \$10,588,000 and included additions to the manufacturing facilities at Sarnia and the costs to December 31, 1961 of the subsidiary company in France. The management has estimated that the capital development program over the next two years will involve expenditures of \$31,000,000.

In computing taxable income for the year, the company, for the first time, took advantage of the maximum capital cost allowances permitted under the Income Tax Act which were in excess of the depreciation charged in the accounts. The effect was to defer income tax of \$1,015,000 until future years, when depreciation charges may be in excess of capital cost allowances.

In connection with its plant construction in France, Polymer Corporation (SAF) negotiated a loan for NF 15,000,000 (\$3,125,000) of which NF 3,000,000 (\$625,500) was received by December 31, 1961 and the balance of NF 12,000,000 (\$2,499,500) early in 1962. This loan, which is repayable in seven instalments from April 1965 to April 1971, is guaranteed by the parent company and the Banque de Paris et des Pays-Bas in the same ratio as their holdings of equity capital.

178. *The St. Lawrence Seaway Authority.* Established in 1954 by the St. Lawrence Seaway Authority Act, R.S., c. 242, the Authority maintains and operates the Canadian section of the twenty-seven foot waterway between the Port of Montreal and Lake Erie. The section of the Seaway in the United States is operated by the Saint Lawrence Seaway Development Corporation. In accordance with an agreement made in 1959 between Canada and the United States, revenues from tolls are divided between the two Seaway entities in proportion to their annual costs of operation and maintenance, interest charges and repayment of loans. The Authority also operates non-toll canals at Lachine, Cornwall and Sault Ste. Marie, the net operating cost being provided for by annual parliamentary appropriations.

The Authority is a corporation consisting of a President and two other Members as provided in the Act. The head office of the Authority is at Ottawa with operating headquarters at Cornwall and district headquarters at St. Lambert, Cornwall and St. Catharines.

The Crown's equity at December 31, 1961 is shown on the Authority's balance sheet as follows:

Capital assets transferred from Department of Transport, April 1, 1959 (including Welland Ship Canal at a value of \$130,727,000)	\$ 180,511,000
Loans under section 25 of the Act	328,000,000
Interest on loans—payment deferred	33,716,000
	<hr/>
	542,227,000
Deduct: Deficit	22,453,000
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	<u>\$ 519,774,000</u>

Loans obtained during the year amounted to \$22,500,000 of which \$9,500,000 was for the purpose of paying interest costs which could not be met from the 1960 earnings of the Authority. This was the subject of comment in paragraphs 63 and 146 of last year's report.

The following is a summary of the income and expense of the Authority for its past two financial years:

	Year ended December 31	
	1961	1960
Income		
Tolls	\$ 9,548,000	\$ 8,483,000
Other income	899,000	878,000
	<hr/>	<hr/>
	10,447,000	9,361,000
	<hr/>	<hr/>
Expense		
Operating expense	2,602,000	2,321,000
Maintenance expense	1,728,000	1,688,000
Operating and maintenance supervision	1,071,000	864,000
Administrative expense	1,617,000	1,324,000
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	7,018,000	6,197,000
Deduct: Portion of supervision and administrative expense applicable to non-toll canals	288,000	288,000
	<hr/>	<hr/>
	6,730,000	5,909,000
	<hr/>	<hr/>
Net operating income before providing for interest and for replacement of movable equipment	3,717,000	3,452,000
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Interest on loans from the Government of Canada	13,793,000	12,791,000
Provision for replacement of movable equipment	200,000	92,000
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	13,993,000	12,883,000
	<hr/>	<hr/>
Net loss	<u>\$10,276,000</u>	<u>\$ 9,431,000</u>

The extent by which income in 1961 fell short of meeting expenses in each of the two sections of the waterway operated by the Authority is shown in the following summary:

	Montreal-Lake Ontario	Welland Canal	Total
Tolls	\$ 8,086,000	\$ 1,462,000	\$ 9,548,000
Other income	144,000	755,000	899,000
	<hr/>	<hr/>	<hr/>
Expenses of operation, maintenance and administration	8,230,000	2,217,000	10,447,000
	2,337,000	4,393,000	6,730,000
	<hr/>	<hr/>	<hr/>
Net operating income (expense)	5,893,000	(2,176,000)	3,717,000
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Interest on loans	12,509,000	1,284,000	13,793,000
Provision for replacement of movable equipment	104,000	96,000	200,000
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	12,613,000	1,380,000	13,993,000
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Net loss	\$ 6,720,000	\$ 3,556,000	\$10,276,000
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On the Montreal-Lake Ontario section, the net operating income of \$5,893,000 compares with \$5,178,000 for 1960 and \$5,894,000 for 1959. The Welland Canal operations, however, have resulted in a net operating expense for three successive years: \$633,000 in 1959, \$1,726,000 in 1960 and \$2,176,000 in 1961. Tolls for the transit of the Welland Canal were suspended effective July 18, 1962 by Order in Council P.C. 1962-1032.

Toll revenues for the past three navigation seasons have been substantially lower than had been estimated by the Canadian and United States toll committees in 1958, as shown below:

	Montreal-Lake Ontario		Welland Canal	
	Estimated	Actual	Estimated	Actual
1959	\$ 9,301,000	\$ 7,105,000	\$ 2,060,000	\$ 1,224,000
1960	10,789,000	7,156,000	2,215,000	1,327,000
1961	12,277,000	8,086,000	2,369,000	1,462,000
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	\$32,367,000	\$22,347,000	\$ 6,644,000	\$ 4,013,000
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The Authority and the Saint Lawrence Seaway Development Corporation are to report to their respective Governments in 1964 on the need to review the toll structure to ensure sufficient income to meet their financial obligations and costs. In this connection, it has been estimated by management on the basis of the current price level that, beginning with the year 1964, the Authority would require income of about \$28 million each year for 46 years to meet operating and maintenance costs and debt payments under the present financial arrangements. Tolls and other income in 1961 amounted to only \$10.5 million including \$1.5 million of Welland Canal tolls which, as stated above, were suspended in 1962.

In my report made to the Minister of Transport under section 87 of the Financial Administration Act on March 30, 1962, covering the examination of the accounts of the

Authority for the year ended December 31, 1961, reference was made to the Authority's indebtedness to the Crown, to its financing arrangements and to its accounting policy with respect to the replacement of worn-out assets. The references were substantially as follows:

Indebtedness to the Crown.—Section 25 of the St. Lawrence Seaway Authority Act provides that the Minister of Finance, with the approval of the Governor in Council, may from time to time make loans to the Authority. Section 13 of the Act, as amended, states that the aggregate of the amounts so borrowed under the Act and outstanding shall not at any time exceed \$345,000,000.

At December 31, 1961 the Authority was indebted to the Government of Canada in respect of loans and deferred interest in the total amount of \$361,716,000 made up as follows:

Loans under section 25 of the Act	\$ 328,000,000
Interest to December 31, 1959—deferred	19,427,000
Interest for the year 1961—deferred	14,289,000
	<hr/>
	\$ 361,716,000
	<hr/>

Financing arrangements.—Section 16 of the St. Lawrence Seaway Authority Act requires that the tolls shall be fair and reasonable and designed to provide a revenue sufficient to defray the cost to the Authority of its operations, which costs shall include (a) payments in respect of interest on amounts borrowed by the Authority, (b) amounts sufficient to amortize the principal of amounts so borrowed over a period not exceeding fifty years, and (c) the cost of operating and maintaining the canals and works under the administration of the Authority, including all operating costs of the Authority and such reserves as may be approved by the Minister.

Pursuant to these provisions, the original conditions under which loans were made to the Authority under section 25 of the Act required the payment of interest only in the first three full years of operation (through the year ending December 31, 1962) and thereafter payment of annual amounts sufficient to amortize over a period of forty-seven years (or by December 31, 2009) all loans and interest thereon.

The terms of the Authority's financing arrangements were amended by Order in Council P.C. 1961-1863 of December 29, 1961, and the principal amount of loans received to finance construction of the Seaway, together with interest previously deferred and all other interest now accrued or accruing up to December 31, 1963, is now to be repaid, together with current interest thereon, in forty-six equal annual instalments commencing December 31, 1964.

In accordance with these financial arrangements, the year's operations have been charged with interest amounting to \$13,793,000 (an additional amount of \$496,000 was included in construction costs), but this interest has not been paid and is included in the Authority's balance sheet as part of the proprietary equity of the Government of Canada. There was no charge to the year's operations with respect to amortization of the principal of the amounts borrowed.

Accounting policy with respect to the replacement of worn-out assets.—The costs of operating and maintaining the canals and works under the administration of the Authority are stated under subsection (c) of section 16 as including all operating costs of the Authority and such reserves as may be approved by the Minister. The Authority

is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance cost and that the amortization over the fifty year period of the principal of the amounts borrowed together with interest as required by subsections (a) and (b) meets the requirements of the Act. Accordingly, no provision for depreciation has been included in the costs for the year under review. An amount of \$200,000 was provided during the year under review toward the cost of replacement of movable equipment having an estimated lifetime of less than fifty years. No provision has been made for the replacement of movable equipment which has an estimated useful life of more than fifty years, or for lock and bridge operating equipment regardless of its life expectancy. Since replacement of worn-out assets is an operating cost, the Audit Office believes that the financial plans of the Authority should include provision for all such replacements, whether required within or beyond the period of fifty years provided by the Act for retirement of its indebtedness.

The following table summarizes the expense and income and shows the remedial works and capital expenditures relating to the non-toll canals operated or administered by the Authority for the past two years:

	Year ended December 31	
	1961	1960
Expense		
Operating expense	\$ 584,000	\$ 648,000
Maintenance expense	749,000	360,000
Operating and maintenance supervision	204,000	224,000
Portion of Authority's supervision and administrative expense applicable to non-toll canals	288,000	288,000
Employee benefits	111,000	101,000
Expenditure on uncompleted work orders and unabsorbed overhead	—	85,000
	<hr/> 1,936,000	<hr/> 1,706,000
Income from rentals, wharfage, etc.	515,000	441,000
	<hr/> 1,421,000	<hr/> 1,265,000
Operating deficit	72,000	996,000
Remedial works—municipal properties	318,000	267,000
Capital expenditures	<hr/>	<hr/>
Operating deficit, remedial works and capital expenditures (recovered from parliamentary appropriations)	\$ 1,811,000	\$ 2,528,000
	<hr/> <hr/>	<hr/> <hr/>

Departmental Operating Activities

179. Extensive trading or servicing activities are operated by a number of departments, for example:

- Agricultural commodities stabilization activities (operated by the Agricultural Stabilization Board under the Department of Agriculture);
- Board of Grain Commissioners (under the Department of Agriculture);
- Canadian Government Elevators (operated by the Board of Grain Commissioners under the Department of Agriculture);
- National Film Board (under the Department of Citizenship and Immigration);
- Post Office activities;
- Public printing and stationery activities;
- Royal Canadian Mint (under the Department of Finance); and
- Airport operations (under the Department of Transport).

180. Reference has been made in paragraph 149 to the statutory direction contained in the Financial Administration Act regarding the annual financial statements to be prepared by Crown corporations. There is, however, no statutory direction regarding the preparation of financial statements in respect of trading or servicing activities operated by departments. Revenues arising from such activities are included in the Public Accounts as revenues of the departments concerned, while the expenditures that involve cash outlays in the year are recorded as charges against the parliamentary appropriations for those departments. In addition, where statutory revolving funds are used to acquire materials, etc., statements summarizing the transactions in the revolving fund accounts are also included in the Public Accounts. In the few instances where financial statements showing operating results from departmental trading or servicing activities are included, the costs shown include only the direct costs arising from cash outlays by the departments concerned and do not include non-cash charges for depreciation, interest on capital, services provided by other departments, etc.

181. *Agricultural commodities stabilization activities.* The Agricultural Stabilization Board was established by the Agricultural Stabilization Act, 1957-58, c. 22, and has the responsibility of stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilizing measures take the form of either the purchase of commodities at prescribed prices or payment to producers of amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold. Pursuant to the Act, the Agricultural Commodities Stabilization Account was established in the Consolidated Revenue Fund and finances the activities of the Board, except for administrative expenses which are financed through annual parliamentary appropriations.

The transactions recorded in the Account during the year ended March 31, 1962 are summarized as follows in comparison with the corresponding amounts for the preceding year:

	Year ended March 31	
	1962	1961
Trading losses		
Butter	\$ 2,482,000	\$ 2,442,000
Pork	2,017,000	29,236,000
Lamb	928,000	101,000
Other	792,000	558,000
	<u>6,219,000</u>	<u>32,337,000</u>
Stabilization and deficiency payments		
Milk	12,371,000	11,433,000
Sugar beets	1,670,000	2,716,000
Eggs	15,000	2,082,000
Wool	1,236,000	1,253,000
Other	495,000	955,000
	<u>15,787,000</u>	<u>18,439,000</u>
Net operating loss	<u>\$22,006,000</u>	<u>\$50,776,000</u>

The \$22,006,000 loss shown for 1961-62 does not include administrative expenses of \$575,000 charged to the appropriation for "Agricultural Stabilization Act Administration" (Vote 9). In addition, certain accounting services with respect to the stabilization program are rendered by the Office of the Comptroller of the Treasury as a charge to the annual appropriations for the costs of that Office (Vote 112, 1961-62). No charge is made for contributions to the Public Service Superannuation Account, and interest on the funds employed is not taken into consideration.

The following is a listing of the inventories, valued at cost, held by the Board at March 31, 1962 in comparison with the similar inventories at the close of the preceding year:

	As at March 31	
	1962	1961
Butter	\$ 112,312,000	\$ 66,963,000
Pork	19,383,000	21,895,000
Other	1,030,000	1,525,000
Total	<u>\$ 132,725,000</u>	<u>\$ 90,383,000</u>

182. *Board of Grain Commissioners for Canada.* This Board operates under the authority of the Canada Grain Act, R.S., c. 25, as amended, and comprises three commissioners appointed by the Governor in Council. The Board has jurisdiction to inquire into any matter relating to: grading, weighing and storage of grain; unfair or discriminatory operation of any elevator; and failure or neglect to comply with provisions of the Act or regulations made thereunder.

The following is a comparative summary of the results of operations for the past two fiscal years:

	Year ended March 31	
	1962	1961
Expenditure		
Salaries, allowances, etc.	\$ 4,286,000	\$ 4,135,000
Rent	188,000	184,000
Travel	125,000	137,000
Printing and stationery	58,000	59,000
General expense	228,000	223,000
	<u>4,885,000</u>	<u>4,738,000</u>
Revenue		
Inspection	1,946,000	1,616,000
Weighing	967,000	821,000
Registrations and cancellations	54,000	44,000
Licenses	29,000	29,000
Sundry	5,000	6,000
	<u>3,001,000</u>	<u>2,516,000</u>
Excess of expenditure over revenue	<u>\$ 1,884,000</u>	<u>\$ 2,222,000</u>

The increase of \$151,000 in salaries, allowances etc., is accounted for mainly by the impact of a full year's cost of an upward revision in staff salary rates granted during the previous year. No charges are included as expenditure of the Board for contributions to the Public Service Superannuation Account, or for accounting and other services provided by government departments.

Despite the improvement in operating results, this is the eighth consecutive year in which the excess of expenditure over revenue has exceeded one million dollars. Costs of the various services provided by the Board have increased substantially, while the fees charged have not been revised since 1920 in the case of weighing services and 1949 in the case of inspection services. Reference has been made to this situation in previous reports, and the matter also received consideration by the Standing Committee on Public Accounts at its meetings in 1961. Notwithstanding a recommendation of this Committee, in paragraph 88 of its Fifth Report, 1961, that "steps be taken to bring revenues and expenditures into balance", no increase has yet been made in the fees charged for services provided by the Board.

183. *Canadian Government Elevators.* The Canadian Government Elevators have been operated since their inception in 1913 by the Board of Grain Commissioners for Canada under the provisions of section 166 of the Canada Grain Act, now R.S., c. 25. There are five interior terminal elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton and Lethbridge, a terminal elevator at Prince Rupert, and a terminal elevator at Port Arthur which is under lease to a private company.

The equity of the Crown in the Canadian Government Elevators at March 31, 1962 was \$13,021,000, represented by fixed assets costing \$12,184,000 acquired out of funds provided by parliamentary appropriations, together with a surplus of \$837,000.

The following is a summary of the results of operations for the year under review in comparison with the corresponding amounts for the preceding year:

	Year ended March 31	
	1962	1961
Revenue		
Storage	\$ 1,129,000	\$ 1,256,000
Elevation	484,000	295,000
Cleaning	159,000	184,000
Drying	23,000	104,000
Other	196,000	182,000
	<u>1,991,000</u>	<u>2,021,000</u>
Expenditure		
Salaries and wages	889,000	839,000
Maintenance—buildings, plant and equipment	362,000	369,000
Grants in lieu of taxes	112,000	114,000
Power	98,000	93,000
Other	107,000	101,000
	<u>1,568,000</u>	<u>1,516,000</u>
Net profit	<u>\$ 423,000</u>	<u>\$ 505,000</u>

The net profit thus determined is without taking into consideration amortization of elevator construction costs, charges for contributions to the Public Service Superannuation Account, or the cost of accounting and other services provided by government departments.

During the year 25,171,000 bushels of grain were received, an increase of 62% over the 15,566,000 bushels received during the previous year. Extensive grain exports from Prince Rupert largely accounted for the net increase in the number of bushels received and resulted in an increase of 64% in revenue from elevation. There was, however, a reduction of grain stocks held by all elevators during 1961-62 thereby decreasing storage revenue. Drying revenue is dependent to a large degree on weather conditions at the time of harvest, and the reduction of \$81,000 in revenue from this source is attributable to the very dry harvesting season in 1961.

For the seventeenth consecutive year the direct costs of operation of the Lethbridge elevator exceeded revenue. The excess for the year under review was \$52,000 compared with \$23,000 in the preceding year and the accumulated deficit now totals \$553,000.

184. *National Film Board.* This Board was established in 1939 by the National Film Act, now R.S., c. 185, for the purpose of promoting the production and distribution of films in the national interest. Section 18 of the Act provides for the establishment of the National Film Board Operating Account in the Consolidated Revenue Fund. The account is credited with the amounts provided by annual parliamentary appropriations for "Administration, Production and Distribution of Films and Other Visual Materials" (Vote 251, 1961-62) and also with income arising from the sale and rental of films and other visual materials, and is charged with all expenditures made by the Board, other than for acquisition of capital equipment.

The equity of the Crown in the Board was \$4,378,000 at March 31, 1962, consisting of the balance of \$477,000 in the National Film Board Operating Account for working capital together with an investment of \$3,901,000 in equipment transferred to the Board at its inception or purchased out of funds provided through parliamentary appropriations, less disposals.

Pursuant to the provisions of the Act, the Board maintains an accounting system on the accrual basis in addition to the accounts maintained by the Comptroller of the Treasury on the cash basis.

The following is a summary of the Board's transactions for the year, compared with those of the preceding year:

	Year ended March 31	
	1962	1961
Expense		
Production of films and other visual materials	\$ 3,008,000	\$ 2,702,000
Distribution of films	2,203,000	2,076,000
Administration and general services	860,000	831,000
Cost of production of films and other visual materials for government departments and others	1,247,000	1,211,000
Acquisition of equipment (net)	172,000	154,000
	<u>7,490,000</u>	<u>6,974,000</u>

	Year ended March 31	
	1962	1961
Income		
Sales of films and other visual materials	1,505,000	1,416,000
Rentals and royalties	877,000	684,000
Miscellaneous	15,000	22,000
	<u>2,397,000</u>	<u>2,122,000</u>
Net expense	<u>\$ 5,093,000</u>	<u>\$ 4,852,000</u>

As disclosed in the note to the Board's Statement of Income and Expense for the year showing the above figures, the statement does not include charges for the value of accommodation, contributions to the Public Service Superannuation Account and accounting and other services provided by government departments to the extent of approximately \$1,027,000 for the year.

185. *Post Office activities.* The following is a summary of the Post Office transactions reported as departmental revenues and as charges against parliamentary appropriations in the Post Office section of Volume II of the Public Accounts for the year ended March 31, 1962 in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1962	1961
Gross postal revenue	\$ 213,518,000	\$ 201,952,000
Less: Expenses paid from revenue	29,839,000	28,358,000
	<u>183,679,000</u>	<u>173,594,000</u>
Net postal revenue	183,679,000	173,594,000
Miscellaneous revenue	61,000	52,000
	<u>183,740,000</u>	<u>173,646,000</u>
<i>Deduct: Expenditures from parliamentary appropriations</i>		
Operations	116,983,000	111,020,000
Transportation	62,719,000	62,200,000
Administration, financial services, etc.	5,301,000	5,152,000
	<u>185,003,000</u>	<u>178,372,000</u>
Excess of expenditure over revenue	<u>\$ 1,263,000</u>	<u>\$ 4,726,000</u>

This recorded excess of expenditure over revenue does not, however, take into consideration charges for services provided by other departments, including accommodation provided by the Department of Public Works (estimated at \$23,411,000 for 1962-63) and contributions to the Superannuation Account by the Department of Finance (estimated at \$7,274,000 for 1962-63). Neither are credits for mail franked by and sent to Members of Parliament and government departments (estimated at \$5,200,000 for 1962-63) taken into account.

186. *Public printing and stationery activities.* Under the Public Printing and Stationery Act, R.S., c. 226, the Department of Public Printing and Stationery is charged with the execution of printing, lithographing or work of like nature and the procurement and distribution of paper, books and other articles of stationery required by the Senate, the House of Commons and the various Government departments. The Department is also responsible for the sale of all books or publications issued by order of either or both Houses of Parliament or by any department.

As authorized by section 37 of the Act, the basic operating expenses of the Department are charged to the Queen's Printer's Advance. Credits are made to the Advance for the value of the printing work executed for and charged, at "factory cost", to the various departments, and for the value of stationery supplied and charged to them at "purchase cost". The aggregate amount of the charges to the Advance after deducting therefrom any amounts due to the Queen's Printer may not exceed \$4 million under the Act. As at March 31, 1962 the balance of the Advance was \$5,323,000 and the accounts receivable amounted to \$3,161,000, so that the effective balance was \$2,162,000, a decrease of \$193,000 compared with the corresponding figure at the end of the preceding year.

A summary of the operations for the year ended March 31, 1962 is given in the following table along with the corresponding figures for the preceding year:

	Year ended March 31	
	1962	1961
Revenue	\$19,543,000	\$18,488,000
Expenditure		
Direct materials	11,996,000	11,757,000
Work sub-contracted	338,000	131,000
Direct labour	4,296,000	4,096,000
Other factory expense	2,729,000	2,711,000
Decrease in inventories	248,000	(215,000)
	19,607,000	18,480,000
	(64,000)	8,000
Discount earned, etc.	11,000	14,000
Excess of revenue over expenditure or (excess of expenditure over revenue)	(\$ 53,000)	\$ 22,000

The excess of expenditure over revenue of \$53,000 for the year ended March 31, 1962 has been carried forward as a charge to the 1962-63 operations.

As in the preceding year, which was the first year in which audited statements for the Advance appeared in the Public Accounts, the value of services and facilities including light, power, telephone, heating, amortization of buildings and equipment, etc., provided free of charge by other government departments and through the medium of appropriations of the Department itself, was not reflected in the financial statements. Reference to this limitation appears in a footnote to the balance sheet. In accordance with our

previous suggestion, the Department is presently engaged upon a study of such costs, with a view to their inclusion in future statements.

In addition to the expenditures recorded through the Advance, the Department has certain other expenditures which are charged to parliamentary appropriations. These expenditures totalled \$3,998,000 and were charged to eight different appropriations as follows:

Departmental administration	\$ 751,000
Purchasing, stationery and stores (largely for salaries and wages of procurement and stationery stores personnel, and repairs to office equipment)	1,264,000
Distribution of official documents	597,000
Printing and binding official publications for sale and distribution to departments and the public	938,000
Printing of Canada Gazette	139,000
Printing and binding the annual Statutes	35,000
Plant equipment and replacements	239,000
Reimbursement of the Queen's Printer's Advance for the value of stores which have become obsolete, unserviceable, lost or destroyed	35,000
	<u>\$ 3,998,000</u>

Credits to Revenue amounted to \$1,315,000, most of which resulted from the sales of publications to the general public.

In accordance with Order in Council P.C. 1961-1201 of August 25, 1961, the distribution of National Gallery publications was transferred to the Department of Public Printing and Stationery with effect from that date. Expenditures made by the Department of Public Printing and Stationery for the distribution of these publications totalled \$13,000, funds for which were provided from the appropriation for "Administration, Operation and Maintenance including grants as detailed in the Estimates" (Vote 253) under the National Gallery of Canada.

187. *Royal Canadian Mint.* The Royal Canadian Mint operates under Part II of the Currency, Mint and Exchange Fund Act, R.S., c. 315, and provides "facilities for making coins of the currency of Canada, and for melting, assaying and refining gold".

Revolving fund accounts are maintained for the recording of transactions in gold, silver and other metals acquired by the Mint for the purpose of its operations. The following is a summary of the charges and credits to these accounts during the year under review in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1962	1961
Inventories at beginning of year	\$ 13,951,000	\$ 11,503,000
Add: Purchases during year—		
Gold	85,607,000	88,667,000
Silver	14,150,000	8,433,000
Other metals	1,823,000	1,081,000
	101,580,000	98,181,000
Gold revaluation	417,000	244,000
	<u>115,948,000</u>	<u>109,928,000</u>

	Year ended March 31	
	1962	1961
Deduct: Sales and other credits—		
Gold sales	87,260,000	86,315,000
Silver coin issues, at face value	11,769,000	14,052,000
Other coin issues, at face value	3,806,000	3,109,000
Silver bullion sales	48,000	521,000
Sundry credits	4,000	59,000
	<hr/> 102,887,000	<hr/> 104,056,000
	<hr/> 13,061,000	<hr/> 5,872,000
Add: Transfers to Revenue—		
Gain on coinage operations	7,562,000	8,006,000
Gold refining gain	32,000	73,000
	<hr/> 7,594,000	<hr/> 8,079,000
Inventories at end of year	<hr/> <u>\$20,655,000</u>	<hr/> <u>\$13,951,000</u>

The transfers to Revenue of \$7,594,000 from the revolving fund accounts, together with other revenues of \$550,000 (\$597,000 in 1960-61), making a total of \$8,144,000 for the year ended March 31, 1962 is recorded in the Public Accounts as revenue of the Department of Finance. Offset against this were expenditures totalling \$1,675,000 charged to parliamentary appropriations under the Department of Finance as follows: administration, operation and maintenance, \$1,558,000 (\$1,412,000 in 1960-61) and construction or acquisition of equipment, \$117,000 (\$23,000 in 1960-61).

The net result of these credits and charges was an excess of revenue over expenditure of \$6,469,000 compared with \$7,241,000 in 1960-61, a decrease of \$772,000. These recorded results do not, however, take into consideration charges for services provided by other departments including accommodation provided by the Department of Public Works, the services of the R.C.M.P. and contributions to the Superannuation Account by the Department of Finance—nor is any charge included for interest on funds employed.

The \$444,000 decrease in the gain on coinage operations during the year, from \$8,006,000 in 1960-61 to \$7,562,000 in 1961-62, is attributable to the decrease of \$1,426,000 in silver seigniorage due to a reduction in the amount of silver coin issued, partially offset by a gain of \$930,000 in nickel and bronze seigniorage due to an increased demand for nickel and bronze coin.

In the course of the audit it was noted that Order in Council P.C. 1961-532 of April 13, 1961 amended the Gold Bullion Regulations and included revisions in the tariff of Mint charges, increasing some and reducing others. The handling charge paid by depositors who deposit gold for sale to the Crown to cover the cost of marketing the gold outside of Canada was reduced during the year from 20 cents to 11 cents per ounce. The income from this source for 1961-62 was therefore lower at \$267,662, compared with \$518,963 in 1960-61, a decrease of \$251,301. However, the gold handling charge assessed

by the Bank of Canada remained unchanged in 1961-62 at 13.8 cents, and the total charge by the Bank of Canada for 1961-62 was \$329,725, resulting in a net loss to the Mint of \$62,063. In the previous year, with the 20 cent rate in effect, the net profit to the Mint was \$192,969.

188. *Airport operations.* At the close of the year under review, the capital investment of the Department of Transport in airports amounted to \$532,917,000, of which \$53,736,000 was added in 1961-62.

The following is a summary of revenue from civil aviation airport operations for the year ended March 31, 1962 with corresponding figures for the preceding fiscal year:

	Year ended March 31	
	1962	1961
Aircraft landing fees:		
Domestic	\$ 3,006,000	\$ 2,170,000
Trans-oceanic	2,858,000	2,093,000
Trans-border	686,000	539,000
Other	30,000	19,000
	<u>6,580,000</u>	<u>4,821,000</u>
Rentals:		
Office, shop and garage space	1,322,000	774,000
Living quarters	382,000	403,000
Hangar	181,000	222,000
Other	948,000	516,000
	<u>2,833,000</u>	<u>1,915,000</u>
Concessions:		
Gasoline and oil	1,693,000	1,371,000
Other	1,516,000	1,108,000
	<u>3,209,000</u>	<u>2,479,000</u>
Miscellaneous revenue	2,003,000	1,873,000
Total revenues	<u>14,625,000</u>	<u>11,088,000</u>

Charges to the parliamentary appropriation "Airports and other Ground Services—Operation and Maintenance" (Vote 432) totalled \$20,762,000 for the year, an increase of \$1,554,000 over the corresponding figure of \$19,208,000 for the preceding year.

The excess of expenditure (excluding new construction) on airways and airports over the revenue received, as reflected in the Department of Transport section of the Public Accounts, was therefore \$6,137,000, a decrease of \$1,983,000 from the preceding year's figure of \$8,120,000. These results did not include any provision for amortization of airport construction costs, interest on funds employed, or other costs such as a portion of the expenditure charged as air services administration, which would have to be taken into consideration if the actual net costs of civil aviation airport operations are to be determined effectively.

During the past year the Department maintained accounts which permitted the preparation of periodical financial statements on the accrual basis, for management purposes, with respect to the operation of the 16 major airports which together accounted for approximately 85% of the revenue from civil aviation airport operations. A consolidation of these statements, which included provision for depreciation of civil aviation capital facilities (though not for the other costs referred to above) was prepared by the Department for the year ended March 31, 1962 and is presented as an appendix to its section of the Public Accounts. The accounts relating to the other airports operated by the Department were maintained on the cash basis and, although no firm decision in the matter has yet been reached, consideration is being given to extending accrual accounting to all airports with a view to including their operating results in the consolidated financial statements in future.

189. In our reports for 1959-60 and 1960-61 the view was expressed that in order that Parliament may gain a clear understanding of the true financial results of departmental operating activities, without necessarily disturbing the present basis of providing appropriations, consideration should be given to the inclusion in the Public Accounts of financial statements of the various activities designed to reflect the over-all operating results in a clear, concise manner. Such operating statements could be adjusted to the accrual basis and would include charges (on a memorandum basis, in the case of non-cash charges) for amortization of building and equipment costs, interest on funds employed, services provided by other departments, etc. A reconciliation could be prepared between the operating results reflected by each such statement and the cash results indicated by the related credits to departmental revenues and charges to departmental appropriations. Balance sheets could also be prepared which would indicate the value of the assets employed by the several activities at the year-end. If statements of this type were produced, the Audit Office would be prepared to examine and certify them.

It is of interest to note that the Royal Commission on Government Organization, after considering the basis on which the financial results of departmental activities should be accounted for, recommends the adoption of accrual accounting with respect to such activities.

Paragraph 87 of the Fifth Report, 1961 of the Public Accounts Committee reads:

"The Committee feels that it would be desirable, in order that members have a clear understanding of the true financial results of departmental trading or servicing activities, such as those of the Department of Public Printing and Stationery and airport operations of the Department of Transport, were over-all financial statements included in the Public Accounts without undue cost or staff increases."

We followed the matter up with the departments concerned and made suggestions regarding the preparation of financial statements for the year ended March 31, 1962 along the lines proposed. Reluctance was found on the part of certain agencies to take the lead in this respect in the absence of encouragement from the Treasury Board and little progress was therefore made. It would be of material assistance were the Treasury Board

to support the proposal in view of the important part that statements of this type could play in controlling costs, and having regard for the importance attached to the matter by the Public Accounts Committee. In the meantime, we shall continue discussions with the departments concerned.

Special Audits and Examinations

190. In addition to the examinations of departmental accounts and the audits of the accounts of Crown corporations, already referred to in this report, the following special audits and examinations were made by the Audit Office during the year, most of them in accordance with specific directions contained in various statutes: Army Benevolent Fund, the Canada Council, the Custodian, Exchange Fund Account, National Gallery of Canada, National Productivity Council, Public Printing and Stationery stores, The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children, Royal Canadian Mint stocks, Unemployment Insurance Fund and Yukon Territorial Government.

191. *Army Benevolent Fund.* The accounts of this Fund were examined for the year ended March 31, 1962 pursuant to the requirement of section 11 of the Army Benevolent Fund Act, R.S., c. 10, and the relative report was addressed to the Chairman and Members of the Army Benevolent Fund Board constituted by the Act, with a copy being provided to the Minister of Veterans Affairs.

During the year, receipts amounted to \$238,000 of which \$227,000 was derived from interest on funds on deposit with the Receiver General of Canada. Disbursements totalled \$493,000 made up of \$416,000 in grants to or on behalf of World War II veterans and \$77,000 for service and administrative expenses. The latter amount was after making deductions for a grant of \$18,000 provided for by an appropriation under the Department of Veterans Affairs and for a fee of \$27,000 from the Canadian Army Welfare Fund for managing the financial program of that Fund.

After absorbing the excess of disbursements over receipts in the amount of \$255,000, the balance at credit of the Fund at March 31, 1962 was \$6,282,000. To the extent of \$6,022,000 this was represented by a balance on deposit with the Receiver General of Canada, the remainder being invested in Government of Canada bonds.

192. *The Canada Council.* The Council was established under the Canada Council Act, 1957, c. 3, "to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences".

A report on the audit of the Council's accounts for the year ended March 31, 1962 was addressed to the Council and to the Prime Minister, as required by the Act.

An Endowment Fund of \$50 million was established under the Act, the return on the investments to be used to meet administrative expenses and other expenditures under the Act, except for grants to universities for building projects. Permissible expenditures include: grants, scholarships, awards, exhibitions, performance and publication of works,

exchanges with other countries, representation of Canadian arts, humanities and social sciences in other countries, and liaison with the United Nations Educational, Scientific and Cultural Organization.

A comparative summary of the results of the Endowment Fund operations for the past two years follows:

	Year ended March 31	
	1962	1961
Surplus at April 1	\$ 418,000	\$ 497,000
Income—interest and dividends	2,955,000	2,919,000
	<hr/>	<hr/>
	3,373,000	3,416,000
	<hr/>	<hr/>
Expenditure		
Grants	2,551,000	2,544,000
Special project—The Canada Council Train	25,000	33,000
Canadian National Commission for UNESCO	57,000	45,000
Administrative and other expenses	467,000	376,000
	<hr/>	<hr/>
	3,100,000	2,998,000
	<hr/>	<hr/>
Surplus at March 31	<u>273,000</u>	<u>418,000</u>

The Act also provided for the establishment of a University Capital Grants Fund in the sum of \$50 million for the purpose of making grants to universities by way of capital assistance for building construction projects intended for use in furthering the arts, humanities and social sciences. These grants may be paid out of the principal and accumulated income of the Fund.

The following is a summary of the University Capital Grants Fund transactions for the year ended March 31, 1962:

Balance at April 1, 1961	\$34,342,000
Add:	
Interest earned on investments	\$ 1,620,000
Net profit on disposal of securities	904,000
	<hr/>
	2,524,000
	<hr/>
	36,866,000
Deduct:	
Authorized grants	6,533,000
	<hr/>
Balance at March 31, 1962	<u>\$30,333,000</u>

The \$30,333,000 balance of the University Capital Grants Fund at March 31, 1962 includes \$12,394,000 of interest earned and profits realized since the inception of the Fund, which has not yet been allocated by the Council to the provinces and, in turn, to the universities within those provinces. The question of the basis of the allocation of the accumulated interest and profits continues under consideration by the Council. In its Fifth Report, 1961 (paragraph 92) the Public Accounts Committee recommended that the Council "seek to conclude this matter without further delay".

193. *The Custodian.* In accordance with Regulation 6 of the Revised Regulations respecting Trading with the Enemy (1943) as set out in the schedule to the Trading with the Enemy (Transitional Powers) Act, 1947, c. 24, the Secretary of State is appointed Custodian "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him" by virtue of the Regulations. The Under-Secretary of State acts as Deputy Custodian and the Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. A report on the audit of the Custodian's accounts for the year ended December 31, 1961 was addressed to the Secretary of State.

The Regulations referred to above permit the Custodian to charge "a fee for services rendered not exceeding 2% of the value of the property including income therefrom" to meet his administrative expenses, with the result that from September 2, 1939 to December 31, 1961 the Custodian had accumulated a surplus of \$4,348,000, an increase of \$79,000 over the corresponding figure at the close of the preceding year.

The following is a comparative summary of the income and expense of the Custodian for the past two financial years:

	Year ended December 31	
	1961	1960
Income		
Fees on assets released from administration	\$ 2,000	\$ 3,000
Interest on investments and bank deposits	194,000	177,000
Other income	3,000	3,000
	<u>199,000</u>	<u>183,000</u>
Expense		
Salaries	106,000	123,000
Other expenses	14,000	23,000
	<u>120,000</u>	<u>146,000</u>
Surplus for year	<u>\$ 79,000</u>	<u>\$ 37,000</u>

The decrease of \$17,000 for salaries is largely due to a reduction in the number of staff employed by the Custodian. A decrease of \$7,000 in the rental charge for the year resulted from the lower cost of the smaller offices occupied during 1961 and is the main reason for the decrease of "other expenses" to \$14,000 from \$23,000 in the preceding year as shown in the above summary.

194. *Exchange Fund Account.* The Exchange Fund Account, first established by the Exchange Fund Act, 1935, c. 60, and continued by the Foreign Exchange Control Act, 1946, c. 53, now operates under Part III of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The purpose of the Account is "to aid in the control and protection of the external value of the Canadian monetary unit".

The accounts of the Exchange Fund for its financial year ended December 31, 1961 were examined pursuant to the requirement of section 27 of the Currency, Mint and

Exchange Fund Act and the relative report was addressed to the Minister of Finance in accordance with established practice. The section requires that a special certificate be given annually to Parliament, and in accordance with that requirement it is now certified that the transactions in connection with the Account for the year ended December 31, 1961 have been in accordance with the provisions of the Act, and that the records showed truly and clearly the state of the Account.

The following is a summary of the transactions in the Account for the year ended December 31, 1961 compared with the transactions in the previous financial year:

	Year ended December 31	
	1961	1960
Balance at January 1	\$ 1,929,536,000	\$ 1,969,513,000
Deduct:		
Paid into Consolidated Revenue Fund in respect of earnings	32,536,000	25,513,000
Repayment of advances (net)	—	47,000,000
	<u>32,536,000</u>	<u>72,513,000</u>
	1,897,000,000	1,897,000,000
Add:		
Advances (net) received during the year	233,000,000	—
Earnings on investments during the year (to be paid into the Consolidated Revenue Fund)	32,606,000	32,536,000
	<u>265,606,000</u>	<u>32,536,000</u>
Balance at December 31	\$ 2,162,606,000	\$ 1,929,536,000
Represented by:		
Canadian dollars	\$ 844,000	\$ 382,000
United States dollars and securities	1,128,605,000	905,919,000
Gold	987,296,000	882,258,000
Suspense Account	3,000	—
	<u>2,116,748,000</u>	<u>1,788,559,000</u>
Deficit	45,858,000	140,977,000
	<u>\$ 2,162,606,000</u>	<u>\$ 1,929,536,000</u>

The deficit of \$45,858,000 at December 31, 1961 represented the difference between (a) \$133,941,000 for the net loss on revaluations of gold and foreign currencies reduced by profits on dealings in gold and foreign currencies and securities since the establishment of the Exchange Fund Account in 1935, and (b) \$88,083,000 for the exchange gain arising from valuation of United States dollar and gold holdings at the exchange rate of \$1.04 11/32 Can.=\$1.00 U.S. at December 31, 1961.

195. *National Gallery of Canada.* The Gallery was incorporated under the National Gallery Act, 1913, c. 33, now R.S., c. 186. Among its objects and powers are the development, maintenance, care and management of the national gallery, the acquisition of works of art and generally the promotion of public interest in art in Canada.

A report on the audit of the National Gallery's accounts for the year ended March 31, 1962 was addressed to the Minister of Citizenship and Immigration, pursuant to section 9 of the National Gallery Act. A report in greater detail to the Board of Trustees

drew attention again to certain administrative weaknesses which have been present in the system of internal financial control for several years. These had been dealt with in previous years' reports to the Board but our examination this year revealed little, if any, improvement in the situation. Following meetings with the Director and other senior officials, steps were taken to remedy the weaknesses in question.

The following is a comparative summary of the expenditures for the past two years, excluding expenditures for salaries of the staff engaged in the sale of Gallery publications (owing to the transfer of this activity to the Department of Public Printing and Stationery during the year under review):

	Year ended March 31	
	1962	1961
Administration, operation and maintenance		
Salaries and wages	\$ 328,000	\$ 310,000
Professional and special services (including security personnel)	161,000	162,000
Other	365,000	298,000
	<hr/> 854,000	<hr/> 770,000
Purchase of works of art	243,000	148,000
Expenditure from trust funds	3,000	2,000
	<hr/> \$ 1,100,000	<hr/> \$ 920,000

The operating expenses of the National Gallery are largely met from an annual parliamentary appropriation, with the remainder coming from a special operating account. Funds for the acquisition of works of art are provided through the National Gallery Purchase Account to which are credited moneys appropriated by Parliament for that purpose. Funds from the National Gallery Special Operating Account are also used to acquire works of art.

Although section 8 of the National Gallery Act established the National Gallery Special Operating Account, to which are credited all receipts by way of "donation, bequest, revenue or otherwise" and permits expenditure from this account for the purposes of the Act, its use to supplement specific appropriations may weaken parliamentary control. For example, \$50,000 of the general revenue in the Account was used to purchase works of art in addition to those acquired through the Purchase Account which is credited with moneys provided for this purpose by special parliamentary appropriation. It is also doubtful whether the Special Operating Account should be credited with the proceeds from the sale of Gallery publications, fees from exhibitions and lectures and service charges, while the costs of producing this revenue are mainly met directly from the parliamentary appropriation for operating expenses.

196. *National Productivity Council.* This Council was established by the National Productivity Council Act, 1960-61, c. 4, with the objects of promoting and expediting continuing improvement in productive efficiency in the various aspects of Canadian economic activity. The Council, which is appointed by the Governor in Council, comprises 25 members chosen as follows: five from industry and commerce, five from organized

labour, five from agriculture and the primary industries, five from the general public, four from the public service and one to serve as Executive Director. The activities of the Council are conducted from a head office in Ottawa and there are regional offices in Halifax, Quebec, Toronto and Winnipeg.

The following is a summary of the operations of the Council from the date of inception on December 20, 1960 to March 31, 1962:

Income	
Statutory grant	\$ 150,000
Donations	13,000
Government's matching contribution	13,000
Interest	3,000
	<hr/>
	\$ 179,000
Expense	
Salaries and employee benefits	51,000
Travel	12,000
Office equipment and expenses	7,000
Conferences and seminars	5,000
Rent and accounting services	4,000
Other	4,000
	<hr/>
	83,000
	<hr/>
	96,000
Add: Credits for rent and accounting services	4,000
	<hr/>
Excess of income over expense	\$ 100,000
	<hr/>

The statutory grant was received under the provisions of section 15 of the National Productivity Council Act, which directs the Minister of Finance to pay the Council, from the Consolidated Revenue Fund, for each of the first three years after the coming into force of the Act, the sum of \$150,000, and thereafter such amounts as may be appropriated by Parliament for the purpose. Section 16 of the Act provides that where the Council, during the first three years of its life, acquires by gift, donation or bequest any asset from a person other than Her Majesty, the Minister of Finance shall pay out of the Consolidated Revenue Fund, in addition to the amount paid under section 15 in any year, an amount equal to the value of the property so acquired. During the period under review, as shown in the above summary, the Council received gifts from private sources to a total value of \$13,000, which the Government matched in accordance with the provisions of section 16.

The expenses of the period under review include amounts totalling \$4,000 for rent of office space and furniture and fixtures provided by the Department of Public Works and for accounting services provided by the Comptroller of the Treasury, neither of which required a cash outlay.

197. *Public Printing and Stationery stores.* Section 34 of the Public Printing and Stationery Act, R.S., c. 226, requires the Auditor General to "annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied". During the year under review,

as in prior years, such tests were made as were considered necessary to establish that the controls exercised by the Department with respect to stores were operating satisfactorily. In addition, we participated in the annual physical stocktaking made by departmental personnel. A report on the examination was made to the Secretary of State.

The inventories of stationery, printing materials and supplies held by the Department at March 31, 1962 totalled \$2,351,000, and compared with the inventories at the end of the previous year as follows:

	As at March 31	
	1962	1961
Stationery supplies	\$ 611,000	\$ 747,000
Typewriter and office machine parts	152,000	152,000
Work in process	339,000	467,000
Paper	361,000	397,000
Printing and maintenance supplies	464,000	488,000
Field units stock	362,000	361,000
Miscellaneous	62,000	77,000
	<u>\$ 2,351,000</u>	<u>\$ 2,689,000</u>

198. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* The Queen Elizabeth II Canadian Research Fund Act, 1959, c. 33, established this Fund to assist individuals or organizations to undertake or carry on research into the diseases of children, and the causes, prevention and treatment of such diseases. A Board of Trustees consisting of a chairman and six other trustees is responsible for the management and administration of the Fund. As required by the Act, the National Research Council provides, without charge, such secretarial and other administrative and technical services as may be required by the Board, whose head office is in Ottawa. A report on the audit of the Fund's accounts for the year ended March 31, 1962 was addressed to the Board and to the Prime Minister as required by the Act.

The Act provided \$1,000,000 for the Fund and also permits the Board to accept gifts for its purposes. A summary of the Fund transactions for the year ended March 31, 1962 compared with the preceding year is given below:

	Year ended March 31	
	1962	1961
Balance at beginning of year	\$ 1,058,000	\$ 988,000
Add:		
Interest on investments	56,000	48,000
Net profit on sales of securities	—	72,000
Gifts	1,000	—
	<u>57,000</u>	<u>120,000</u>
	<u>1,115,000</u>	<u>1,108,000</u>

	Year ended March 31	
	1962	1961
Deduct:		
Awards approved during year	112,000	59,000
Less: Cancellation of awards approved in preceding year	—	9,000
	<u>112,000</u>	<u>50,000</u>
Balance at end of year	<u>\$ 1,003,000</u>	<u>\$ 1,058,000</u>

Two categories of awards have been approved by the Board of Trustees, namely, Queen Elizabeth II Fellowships and Queen Elizabeth II Scientists. Awards in the first category are made to doctors of medicine or "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of children, and range in value from \$3,500 to \$5,000 per annum. During the year under review two new and three renewal fellowships were approved totalling \$22,000. The second category covers the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the Board of Trustees with regard to these appointments provide for payments of \$10,000 per annum for the first three years and \$5,000 for the next following three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without further recourse to the Fund. Two such appointments were made during the year and provision for the \$90,000 which it is expected will be ultimately expended was made in the Fund's accounts.

199. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenues and expenditures accordingly form part of the departmental revenues and expenditures and are examined as such. However, section 20 of the Currency, Mint and Exchange Fund Act, R.S., c. 315, requires that the Auditor General shall "at least once in each year inspect the store of bullion and coin at the Mint". Such an inspection was made as at February 28, 1962 and a report thereon was made to the Deputy Minister of Finance. The stocks of bullion and metals at cost, and coin at face value, held by the Mint at February 28, 1962 amounted to \$16,116,000, comprising: gold, \$3,183,000; silver, \$12,372,000; nickel, \$275,000; and bronze, \$286,000.

200. *Unemployment Insurance Fund.* This Fund, which was originally established by the Unemployment Insurance Act, 1940, c. 44, as a special account in the Consolidated Revenue Fund, now operates under the Unemployment Insurance Act, 1955, c. 50. The purpose of the Act is to provide for insurance against unemployment and to maintain a national employment service. It is administered by the Unemployment Insurance Commission which comprises three commissioners appointed by the Governor in Council. Particulars of unemployment insurance administration are given in paragraph 72.

In accordance with section 83 of the Act, all contributions from insured employees and their employers, together with Government of Canada contributions equivalent to one-fifth of the total employee-employer contributions, are credited to the Fund, and

benefits and other payments under the Act are charged to the Fund. The Act provides that credits in the Fund that are not currently required shall be invested by the Commission in obligations of, or guaranteed by the Government of Canada, and in earlier years substantial investments were accumulated. During the past five years, benefits and other outlays exceeded receipts, and securities were liquidated as required. During the last three years (in order to control the liquidation of securities) advances were received from the Minister of Finance which, with the exception of 1960-61, were repaid within each fiscal year.

Financial statements showing the state of the Fund as at the end of the fiscal year and the operations of the Fund during the year are prepared annually by the Unemployment Insurance Commission and included in the Public Accounts. In my report for the year ended March 31, 1960 (paragraph 109) attention was drawn to the fact that these financial statements are not, by statute, subject to audit examination. In its Fifth Report, 1961 (paragraph 82), the Public Accounts Committee took note of this and recommended that the financial statements be required by statute to be reported upon by the Auditor General. Although the Act has not yet been amended, the Commission submitted its financial statements for the year ended March 31, 1962 to the Audit Office for examination, and these statements, together with my report thereon to the Minister of Labour, are reproduced in the Public Accounts, Volume II, pages 17.15 to 17.

The balance at the credit of the Fund at March 31, 1962, as shown on the balance sheet, amounted to \$66,598,052, after reflecting an excess of expenditure over income of \$118,086,801 resulting from operations during the year. The following is a comparative summary of the income and expenditure of the Fund for the past three years:

	1959-60	1960-61	1961-62
Income			
Contributions from employers and employees ..	\$ 228,616,000	\$ 275,273,000	\$ 277,789,000
Contributions from Government of Canada ..	45,723,000	55,055,000	55,558,000
Other income	16,907,000	10,043,000	6,889,000
Less: Loss on sale of securities	8,414,000	7,269,000	622,000
	<i>8,493,000</i>	<i>2,774,000</i>	<i>6,267,000</i>
	<hr/> 282,832,000	<hr/> 333,102,000	<hr/> 339,614,000
Expenditure			
Benefit payments	415,234,000	513,906,000	454,740,000
Interest on advances	1,517,000	403,000	2,961,000
	<hr/> 416,751,000	<hr/> 514,309,000	<hr/> 457,701,000
Excess of expenditure over income	\$ 133,919,000	\$ 181,207,000	\$ 118,087,000

The annual deficits shown above do not include administrative expenses of the Commission which are charged to appropriations for the Unemployment Insurance Commission under the Department of Labour (see paragraph 72). Also not reflected are the value of accommodation for the Commission's regional and local offices throughout Canada,

contributions to the Public Service Superannuation Account, accounting services rendered by the Comptroller of the Treasury and other services provided by government departments.

The reduction in the annual deficit to \$118,087,000 in 1961-62 from \$181,207,000 in 1960-61 was mainly caused by fewer benefit payments, the average monthly percentage of the insured population drawing benefit in 1961-62 being 9.3% compared with 10.7% in 1960-61. The number of initial claims allowed in 1961-62 was 1,370,738 compared with 1,546,414 in 1960-61 and the average number of benefit weeks paid was 14.3 in 1961-62 compared with 16.4 in 1960-61.

A significant accounting transaction took place during the year under review as a result of the takeover by the Department of Finance, on September 29, 1961, of the entire security holdings of the Fund at their book value (amortized cost plus accrued interest) pursuant to the announcement of the Minister of Finance in his Budget Speech of June 20, 1961. In return for securities with a book value of \$240,453,953, and a payment of \$7,167, the Fund obtained discharge of its liability to the Minister of Finance for loans outstanding of \$99 million and accrued interest of \$2,961,120, and acquired \$138,500,000 of a special issue of Government of Canada non-negotiable bonds bearing interest at 3¾% and redeemable at par subject to 30 days prior notice.

The market value of the securities thus transferred, including accrued interest, was \$205,968,281 or \$34,485,672 less than the \$240,453,953 credited to the Fund on the basis described above. The Minister of Finance explained in the course of his Budget Speech that the purpose of the takeover was to remove from the bond market the Fund's holdings of Government securities which, because of their size and the volume of sales and purchases therein, were exerting an unstabilizing influence on the market.

From the standpoint of the Fund, the transfer of the securities to the Department of Finance at book value rather than market value relieved the Fund of a substantial loss on the disposal of its portfolio. As already indicated such a loss could have amounted to \$34,485,672 based on the market values of the securities on the date they were transferred.

201. *Yukon Territorial Government.* The Yukon Act, 1952-53, c. 53, as amended, makes provision for the appointment of a Commissioner by the Governor in Council and for the election of a Council of seven members. Three members of the Council, appointed by the Commissioner on the recommendation of the Council, constitute an Advisory Committee on Finance. The Commissioner in Council is empowered to make ordinances for the government of the Territory in fields normally within provincial jurisdiction.

The accounts relating to the receipt and expenditure of territorial funds and to expenditures from moneys appropriated by Parliament for the Territory are subject to examination by the Auditor General of Canada, in accordance with section 26 of the Act.

However, the Act does not provide for the preparation of annual financial statements for the Territory, for their certification by the Auditor General as the statutory auditor, or for their being laid before the House of Commons. I recommended to the Minister of Northern Affairs and National Resources that steps be taken to incorporate these provi-

sions in the Act. At the same time I advised him that, pending such an amendment to the legislation, I would furnish appropriate audit certificates covering the annual financial statements prepared by the Territory for publication in its Public Accounts. We have since been advised by the Department that it proposes in due course to recommend amending legislation towards the desired end.

The following is a summary of expenditure and revenue of the Yukon Territorial Government for the year ended March 31, 1962, with the corresponding amounts for the previous fiscal year:

	Year ended March 31	
	1962	1961
Expenditure		
Education	\$ 951,000	\$ 769,000
Yukon Hospital Insurance Service	392,000	245,000
Health and welfare	378,000	390,000
Roads, bridges and public works	349,000	342,000
Municipal and area development	284,000	219,000
Capital projects	708,000	791,000
Other expenditure	386,000	394,000
	<u>3,448,000</u>	<u>3,150,000</u>
Revenue		
Liquor profits	875,000	861,000
Tax revenue	551,000	584,000
Federal grants	527,000	505,000
School attendance and miscellaneous fees	314,000	266,000
Licence revenue	221,000	195,000
Other revenue	392,000	428,000
	<u>2,880,000</u>	<u>2,839,000</u>
Excess of expenditure over revenue	\$ <u>568,000</u>	\$ <u>311,000</u>

The accounts of the Territory show loans payable to the Government of Canada at March 31, 1962 totalling \$2,135,000, a decrease of \$55,000 in the year. A further loan of \$500,000 was received by the Territory following the close of the fiscal year.

* * * * *

The staff shortages confronting the Audit Office continue to impose an abnormally heavy burden on its present staff at all levels. That the work has been discharged so ably and conscientiously is a tribute to the continued loyalty and devotion of each member of the staff.

A. M. HENDERSON,
Auditor General of Canada.

November 19, 1962.

APPENDICES

Statement of Expenditure and Revenue for the Fiscal Year ended March 31, 1962	Appendix 1
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THE GOVERNMENT

STATEMENT OF EXPENDITURE AND REVENUE FOR
(with comparative figures for
EXPENDITURE

	Fiscal year ended	
	March 31, 1962	March 31, 1961
Agriculture.....	\$ 286,683,751	\$ 264,915,215
Atomic Energy.....	34,711,614	38,892,905
Auditor General's Office.....	1,069,939	928,573
Board of Broadcast Governors.....	311,515	280,946
Canadian Broadcasting Corporation.....	78,160,805	66,766,203
Office of the Chief Electoral Officer.....	366,474	591,780
Citizenship and Immigration.....	65,016,446	61,049,383
Civil Service Commission.....	4,738,709	4,220,006
Defence Production.....	23,929,926	20,435,693
External Affairs.....	95,571,260	103,023,405
Finance—		
Public debt charges.....	838,986,401	797,602,265
Tax-sharing, subsidy and other payments to provinces.....	541,182,624	537,814,873
Other expenditure.....	131,784,164	124,609,972
	1,511,953,189	1,460,027,110
Fisheries.....	23,097,882	19,195,681
Forestry.....	14,737,929	10,060,199
Governor General and Lieutenant-Governors.....	474,156	436,926
Insurance.....	1,358,022	1,309,674
Justice.....	32,580,184	27,694,612
Labour.....	168,884,756	121,336,329
Legislation.....	8,438,007	8,506,699
Mines and Technical Surveys.....	67,599,290	59,120,367
National Defence—		
Royal Canadian Navy.....	272,005,671	245,478,753
Canadian Army.....	442,414,649	402,262,470
Royal Canadian Air Force.....	781,421,960	751,598,647
Defence research and development.....	40,444,658	41,925,038
Other expenditure.....	89,817,374	76,265,675
	1,626,104,312	1,517,530,588
National Film Board.....	5,143,773	4,866,930
National Gallery.....	1,053,582	908,898
National Health and Welfare—		
Family allowances.....	520,781,193	506,191,647
Other expenditures.....	519,494,503	380,955,343
	1,040,275,696	887,146,990
National Research Council, including the Medical Research Council.....	38,849,279	34,438,422
National Revenue.....	75,330,063	73,260,720
Northern Affairs and National Resources.....	82,342,456	74,295,902
Post Office.....	185,003,359	178,371,717
Privy Council.....	4,479,601	1,850,166
Public Archives and National Library.....	977,899	842,304
Public Printing and Stationery.....	4,010,195	3,495,863
Public Works.....	188,813,326	200,891,585
Royal Canadian Mounted Police.....	60,497,037	56,023,194
Secretary of State.....	4,994,967	4,877,799
Trade and Commerce.....	39,472,256	21,763,612
Transport.....	410,391,113	336,446,853
Veterans Affairs—		
Pensions.....	177,869,638	150,694,547
Other expenditure.....	155,353,268	141,603,150
	333,222,906	292,297,697
Total expenditure.....	6,520,645,674	5,958,100,946
Budgetary deficit.....	-791,021,950	-340,421,092
	5,729,623,724	5,617,679,854

H. R. BALLS,
Comptroller of the Treasury.

K. W. TAYLOR,
Deputy Minister of Finance.

APPENDIX 1

OF CANADA

THE FISCAL YEAR ENDED MARCH 31, 1962
the preceding fiscal year)

REVENUE

	Fiscal year ended	
	March 31, 1962	March 31, 1961
Tax revenues—		
Income tax—		
Personal ⁽¹⁾	\$1,792,655,915	\$1,711,159,573
Corporation ⁽¹⁾	1,202,053,695	1,276,628,380
On dividends, interest, etc., going abroad	112,305,709	88,173,822
Excise taxes—		
Sales tax ⁽¹⁾	759,677,970	720,617,274
Other.....	262,526,380	290,658,192
Customs duties.....	534,515,544	498,698,211
Excise duties.....	362,798,655	344,944,857
Estate tax ⁽²⁾	84,579,383	84,879,372
Miscellaneous.....	51,495	16,905
	5,111,164,746	5,015,776,586
Non-tax revenues—		
Return on investments.....	307,502,187	283,769,277
Post Office—net postal revenue.....	183,678,937	173,593,541
Refunds of previous years' expenditure.....	18,162,831	40,544,154
Services and service fees.....	42,452,991	35,671,632
Proceeds from sales.....	25,901,810	23,980,752
Privileges, licences and permits.....	23,271,195	27,205,888
Bullion and coinage.....	7,965,169	8,445,677
Premium, discount and exchange.....	1,771,425	873,203
Miscellaneous.....	7,752,433	7,819,144
	618,458,978	601,903,268
(1) Excluding tax credited to the old age security fund—		
	1961-62	1960-61
Personal income tax.....	258,950,000	229,400,000
Corporation income tax.....	100,125,000	103,500,000
Sales tax.....	284,879,238	270,231,478
(2) Includes Succession Duties.		
Total revenue.....	5,729,623,724	5,617,679,854

Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the expenditures and revenues of Canada for the year ended March 31, 1962.

A. M. HENDERSON,
Auditor General.

THE GOVERNMENT

STATEMENT OF ASSETS AND
(with comparative figures)

ASSETS

	March 31, 1962	March 31, 1961	Net increase or decrease (-) during 1961-62
1. Current assets—			
(a) Cash, schedule A	\$ 895,321,334	\$ 486,759,770	\$ 408,561,564
(b) Departmental working capital advances and revolving funds, schedule B	223,379,565	171,082,579	52,296,986
(c) Securities held for the securities investment account at amortized cost	94,608,163	101,453,744	-6,845,581
(d) Other current assets, schedule C	32,707,390	25,051,644	7,655,746
	1,246,016,452	784,347,737	461,668,715
2. Advances to the exchange fund account—(value of investments from advances on basis of closing exchange rates: March 31, 1962, \$1,759,690,147; March 31, 1961, \$1,869,957,821)	1,793,000,000	2,024,000,000	-231,000,000
3. Sinking fund and other investments held for retirement of un-matured debt, schedule D	19,432,331	17,017,981	2,414,350
4. Loans to, and investments in, Crown corporations, schedule E	3,985,329,459	3,614,187,638	371,141,821
5. Loans to national governments, schedule F	1,339,796,827	1,378,196,197	-38,399,370
6. Other loans and investments, schedule G			
(a) Subscriptions to capital of, and working capital advances and loans to, international organizations	659,935,897	631,126,992	28,808,905
(b) Loans to provincial governments	97,879,073	98,372,577	-493,504
(c) Veterans land act advances (less reserve for conditional benefits)	177,355,101	166,092,206	11,262,895
(d) Miscellaneous	58,693,017	140,059,590	-81,366,573
	993,863,088	1,035,651,365	-41,788,277
7. Securities held in trust, schedule H	25,836,647	30,042,201	-4,205,554
8. Deferred charges—			
(a) Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account	326,300,000	326,300,000	
Public service superannuation account	276,661,000	276,661,000	
Royal Canadian Mounted Police superannuation account	3,533,000		3,533,000
(b) Unamortized loan flotation costs, appendix No. 7	121,332,197	130,741,328	-9,409,131
	727,826,197	733,702,328	-5,876,131
9. Suspense accounts, schedule I	136,101	136,101	
10. Capital assets	1	1	
11. Inactive loans and investments, schedule J	94,824,381	94,824,381	
Total Assets	10,226,061,484	9,712,105,930	513,955,554
12. Less: Reserve for losses on realization of assets	-546,384,065	-546,384,065	
Net Assets	9,679,677,419	9,165,721,865	513,955,554
13. Net debt, represented by excess of liabilities over net assets, schedule K	13,228,137,045	12,437,115,095	791,021,950
	22,907,814,464	21,602,836,960	1,304,977,504

The notes appearing on page 104 are an integral part of this Statement of Assets and Liabilities.

H. R. BALLS,
Comptroller of the Treasury.

K. W. TAYLOR,
Deputy Minister of Finance.

(The schedules and the appendix referred to in the above Statement, and the pages referred to in the two notes, are to be found in the Public Accounts, Volume I)

APPENDIX 2

OF CANADA

LIABILITIES AS AT MARCH 31, 1962

as at March 31, 1961)

LIABILITIES

	March 31, 1962	March 31, 1961	Net increase or decrease (—) during 1961-62
14. Current and demand liabilities, schedule L—			
(a) Outstanding treasury cheques	\$ 265,658,447	\$ 251,740,839	\$ 13,917,608
(b) Accounts payable (that portion paid in April of the next following fiscal year)	280,711,177	221,396,476	59,314,701
(c) Non-interest bearing notes payable to the international monetary fund and the international development association	372,031,620	383,660,444	—11,628,824
(d) Matured debt outstanding	36,438,562	31,872,131	4,566,431
(e) Interest due and outstanding	73,845,656	66,776,824	7,068,832
(f) Interest accrued	174,601,049	154,015,640	20,585,409
(g) Other current liabilities	30,794,396	38,098,891	—7,304,495
	1,284,080,907	1,147,661,245	86,519,662
15. Deposit and trust accounts, schedule M	266,624,103	239,667,315	26,956,788
16. Annuity, insurance and pension accounts, schedule N	4,245,941,809	3,955,509,445	290,432,364
17. Undisbursed balances of appropriations to special accounts, schedule O	115,135,367	104,492,701	10,642,666
18. Deferred credits, schedule P	94,991,098	79,073,348	15,917,750
19. Suspense accounts, schedule Q	5,305,046	8,617,992	—3,312,946
20. Unmatured debt, schedule R—			
(a) Bonds	15,060,736,134	14,132,914,914	927,821,220
(b) Treasury bills	1,885,000,000	1,935,000,000	—50,000,000
	16,945,736,134	16,067,914,914	877,821,220

Note:

The indirect or contingent liabilities of the Government of Canada, consisting of railway securities guaranteed as to principal and interest, \$1,636,100,000; railway securities guaranteed as to interest only, \$14,790; other guarantees of \$4,807,547,475; together with certain indeterminate guarantees, are listed on page 167.

Total Liabilities	22,907,814,464	21,602,836,960	1,304,977,504
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Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the financial position of Canada as at March 31, 1962.

A. M. HENDERSON,
Auditor General.

**SUMMARY OF APPROPRIATIONS, EXPENDITURES AND UNEXPENDED BALANCES
BY DEPARTMENTS FOR THE YEAR ENDED MARCH 31, 1962**

Section	Department	Appropriations	Expenditures	Unexpended Balances	
				Lapsed	Carried forward ⁽¹⁾
		\$	\$	\$	\$
1	Agriculture.....	296,725,647	286,683,751	10,041,896	
2	Atomic Energy.....	39,733,715	34,711,614	5,022,101	
3	Auditor General's Office.....	1,135,400	1,069,939	65,461	
4	Board of Broadcast Governors.....	331,170	311,515	19,655	
5	Canadian Broadcasting Corporation.....	81,752,300	78,160,805	3,591,495	
6	Office of the Chief Electoral Officer.....	367,918	366,474	1,444	
7	Citizenship and Immigration.....	67,984,674	65,016,446	2,968,228	
8	Civil Service Commission.....	4,777,736	4,738,709	39,027	
9	Defence Production.....	27,316,162	23,929,926	3,386,236	
10	External Affairs.....	98,620,284	95,571,260	3,049,024	
11	Finance.....	1,516,395,390	1,511,953,189	4,442,201	
12	Fisheries.....	25,270,529	23,097,882	2,172,647	
13	Forestry.....	16,748,430	14,737,929	2,010,501	
14	Governor General and Lieutenant-Governors.....	489,165	474,156	15,009	
15	Insurance.....	1,384,136	1,358,022	26,114	
16	Justice.....	9,690,544	9,461,190	229,354	
16	Office of the Commissioner of Penitentiaries.....	25,299,164	23,118,994	2,180,170	
17	Labour.....	253,487,530	168,884,756	47,145,342	37,457,432
18	Legislation.....	8,519,188	8,438,007	81,181	
19	Mines and Technical Surveys.....	70,674,806	67,599,290	3,075,516	
20	National Defence.....	1,685,298,092	1,626,104,312	59,193,780	
21	National Film Board.....	5,160,492	5,143,773	16,719	
22	National Gallery of Canada.....	1,162,576	1,053,582	108,994	
23	National Health and Welfare.....	1,046,348,686	1,040,275,696	6,072,990	
24	National Research Council, including the Medical Research Council.....	38,898,514	38,849,279	49,235	
25	National Revenue.....	78,767,144	75,330,063	3,437,081	
26	Northern Affairs and National Resources.....	92,906,299	82,342,456	10,563,843	
27	Post Office.....	190,795,698	185,003,359	5,792,339	
28	Privy Council.....	5,122,717	4,479,601	643,116	
29	Public Archives and National Library.....	1,025,549	977,899	47,650	
30	Public Printing and Stationery.....	4,090,359	4,010,195	80,164	
31	Public Works.....	210,742,709	188,813,326	21,929,383	
32	Royal Canadian Mounted Police.....	61,939,363	60,497,037	1,442,326	
33	Secretary of State.....	5,235,839	4,994,967	240,872	
34	Trade and Commerce.....	42,516,013	39,472,256	1,873,958	1,169,799
35	Transport.....	423,132,137	395,260,783	27,871,354	
35	Canadian Maritime Commission.....	18,240,715	10,200,345	8,040,370	
35	National Harbours Board.....	7,239,552	4,929,985	2,309,567	
36	Veterans Affairs.....	341,383,578	333,222,906	8,160,672	
		(2)6,806,709,920	(2)6,520,645,674	247,437,015	38,627,231

⁽¹⁾ Available for expenditure in 1962-63.

⁽²⁾ In addition, parts of appropriations in respect of the following departments and expenditures in similar amounts were transferred to "Other Loans and Investments", as follows: Agriculture \$3,855,524; National Health and Welfare \$10,150; and Northern Affairs and National Resources \$3,000.

H. R. BALLS.
Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the expenditures as set forth in the above Statement have been examined under my direction and subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1962.

A. M. HENDERSON,
Auditor General.

(The sections referred to in the above Summary are those in the Public Accounts, Volume II)

SUMMARY OF REVENUE BY MAIN CLASSIFICATIONS AND DEPARTMENTS FOR THE YEAR ENDED MARCH 31, 1962

Section	Department	Tax revenue	Return on investments	Bullion and coinage	Premium, discount and exchange	Postal revenue	Privileges, licences and permits	Proceeds from sales	Services and service fees	Refunds of previous years' expenditure	Miscellaneous	Total
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1	Agriculture.....											
2	Atomic Energy.....		110,802				1,248,324	1,174,889	6,630,927	82,295	37,610	9,284,847
3	Auditor General's Office.....		223,672								100	223,772
4	Board of Broadcast Governors.....								6,770	2	35	6,807
5	Canadian Broadcasting Corporation.....											
6	Office of the Chief Electoral Officer.....									2		2
7	Citizenship and Immigration.....							617		1,799		2,416
8	Civil Service Commission.....											1,200
9	Defence Production.....		28,136				905,214	32,700	102,247	175,530	148,156	1,391,983
10	External Affairs.....											137
11	Finance.....		3,924,658				3,157	10,810,855	275,620	12,339	5,357	15,031,986
12	Fisheries.....		1,346,580				829,592	29,413	11,368	52,395	20,343	2,280,601
13	Forestry.....		213,093,252				1,976	1,976	21,384	2,460,228	482,495	225,985,929
14	Insurance.....		320,464				116,700	116,849	38,815	22,358	53,501	688,777
15	Justice.....						70,930	20,127	4,348	778	73	96,256
16	Office of the Commissioner of Penitentiaries.....		48,316				64,439	693,661	729,277	26	202,174	777,619
17	Labour.....		217,460						9,975	26,066		996,315
18	Legislation.....		8,402									217,460
19	Mines and Technical Surveys.....						134,985	3,116	2,012	58,851	480,050	552,431
20	National Defence.....		331,969				21,489	242,159	7,295		4,104	141,461
21	National Film Board.....		461,493				1,707,505	4,350,677	1,806,900	10,967,410	502,418	1,113,961
22	National Gallery of Canada.....									14,406	2,908,811	22,202,856
23	National Health and Welfare.....											14,406
24	National Research Council including Medical Research Council.....						331,769	159,632	3,681,281	782,570	74	2,583
25	National Revenue.....	5,111,113,250	74							40,701	1,079	41,854
26	Northern Affairs and National Resources.....		1,846				225,238	44,818	250,460		1,022,982	5,112,695,484
27	Post Office.....	3,180	184,558				3,872,973	574,686	581,217	435,954	126,780	5,779,388
28	Privy Council.....		1,880					21,087		11,144	27,340	183,740,388
29	Public Archives and National Library.....									86		5,086
30	Public Printing and Stationery.....		235						4,758	2,251	33	7,277
31	Public Works.....									2,526		1,315,236
32	Royal Canadian Mounted Police.....		71,754,311				1,696,286	5,404,629	437,552	748,067	408,713	80,449,558
33	Secretary of State.....		18,674				708,860	404,193	11,503,831	173,227	107,679	12,916,464
34	Trade and Commerce.....						2,429,698		331,224	15,916	1,370	2,798,208
35	Transport.....		9,313,943				15,014	2,267	2,070,906	15,123	807,712	12,225,565
36	Veterans Affairs.....		151,759				8,846,181	539,224	13,702,392	310,785	138,399	23,688,740
			6,008,079				42,241	9,152		1,731,765	190,031	7,951,298
		5,111,164,716	307,502,187	7,965,169	1,771,425	183,678,937	23,271,195	25,901,810	42,452,991	18,162,831	7,752,433	5,729,623,724

H. R. BALLS,
Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the revenues as set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1962.

A. M. HENDERSON,
Auditor General.

(The sections referred to in the above Summary are those in the Public Accounts, Volume II)

SUMMARY OF EXPENDITURE BY STANDARD OBJECTS
FOR THE YEAR ENDED MARCH 31, 1962
(with comparable figures for the preceding fiscal year)
(in millions of dollars)

	1961-62	1960-61	Increase or decrease (-)
Civil salaries and wages.....	\$830.0	\$782.2	\$47.8
Civilian allowances.....	14.8	13.9	.9
Pay and allowances, defence forces and R.C.M. Police.....	574.5	523.2	51.3
Professional and special services.....	95.2	83.9	11.3
Travelling and removal expenses.....	66.9	62.1	4.8
Freight, express and cartage.....	12.2	11.6	.6
Postage.....	6.2	6.0	.2
Telephone, telegrams and other communication services.....	21.7	18.8	2.9
Publication of departmental reports and other material.....	9.4	8.6	.8
Exhibits, advertising, films, broadcasting and displays.....	13.2	12.1	1.1
Office stationery, supplies, equipment and furnishings.....	26.1	21.8	4.3
Materials and supplies.....	171.6	163.6	8.0
Buildings and works, including land—			
Construction or acquisition.....	328.1	312.2	15.9
Repairs and upkeep.....	60.2	56.5	3.7
Rentals.....	16.3	15.8	.5
Equipment—			
Construction or acquisition.....	357.2	325.0	32.2
Repairs and upkeep.....	148.9	154.5	— 5.6
Rentals.....	6.9	5.9	1.0
Municipal or public utility services.....	57.5	53.5	4.0
Contributions, grants, subsidies, etc., not included elsewhere.....	637.2	527.6	109.6
Pensions, superannuation and other benefits.....	134.8	113.1	21.7
All other expenditures (other than special categories).....	88.5	70.0	18.5
Interest on public debt, etc.....	839.0	797.6	41.4
Subsidies and special payments to the provinces.....	541.2	537.8	3.4
Family allowance payments.....	520.8	506.2	14.6
Old age assistance, blind persons and disabled persons allowances and unemployment assistance.....	143.4	102.7	40.7
Veterans' disability pensions, etc.....	177.9	150.7	27.2
Other payments to veterans and dependents.....	87.3	71.2	16.1
Government's contribution to the Unemployment Insurance Fund.....	55.6	55.1	.5
Hospital insurance and general health grants.....	332.9	237.4	95.5
Trans-Canada Highway contributions.....	36.5	48.7	—12.2
Movement of mail by land, air and water.....	62.1	61.7	.4
Deficits—Government-owned enterprises.....	84.1	78.3	5.8
	\$6,558.2	\$5,989.3	\$568.9
Less: Expenditure recovered.....	37.6	31.2	6.4
Net Total Expenditure.....	\$6,520.6	\$5,958.1	\$562.5

APPENDIX 6

**SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE
BY DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES**

March 1962 in comparison with March 1961

	Employees Authorized		Increase (Decrease)
	March 1962	March 1961	
DEPARTMENTS (Notes 1 and 2)—			
Agriculture—			
Administration*.....	403	398	5
Research*.....	4,205	4,139	66
Production and marketing*.....	3,391	3,332	59
Board of Grain Commissioners*.....	1,124	1,132	(8)
Special*.....	1,251	1,300	(49)
	10,374	10,301	73
Atomic Energy Control Board.....	8	8	—
Auditor General's Office.....	159	141	18
Board of Broadcast Governors.....	35	31	4
Chief Electoral Officer.....	16	16	—
Citizenship and Immigration—			
Administration.....	191	176	15
Citizenship.....	217	211	6
Immigration*.....	2,136	2,138	(2)
Indian Affairs*.....	2,494	2,347	147
	5,038	4,872	166
Civil Service Commission*.....	736	692	44
Defence Production.....	1,583	1,581	2
External Affairs—			
Administration.....	816	786	30
Representation abroad.....	1,294	1,216	78
International Joint Commission.....	12	12	—
Other international commissions.....	15	16	(1)
External Aid Office.....	103	59	44
	2,240	2,089	151
Finance—			
Departmental administration*.....	264	479	(215)
Comptroller of the Treasury*.....	4,801	4,501	300
Administration of various Acts.....	452	429	23
Tariff Board.....	31	28	3
	5,548	5,437	111
Fisheries—			
Administration and general services*.....	197	199	(2)
Field services*.....	1,473	1,438	35
Special*.....	838	830	8
	2,508	2,467	41
Forestry—			
Departmental administration*.....	188	110	78
Forest research branch*.....	454	449	5
Forest entomology and pathology branch*.....	572	555	17
Forest products research branch*.....	196	187	9
	1,410	1,301	109

* Includes seasonal, part-time and/or sessional employees.

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—Continued

	Employees Authorized		Increase (Decrease)
	March 1962	March 1961	
DEPARTMENTS (Continued)			
Governor General and Lieutenant Governors*	17	15	2
Insurance*	110	110	—
Justice—			
Department.....	429	402	27
Penitentiaries*.....	2,858	2,630	228
	3,287	3,032	255
Labour—			
Department*.....	648	626	22
Unemployment Insurance Commission.....	9,135	8,632	503
	9,783	9,258	525
Legislation—			
Senate*.....	172	168	4
House of Commons*.....	760	727	33
Library of Parliament*.....	55	55	—
	987	950	37
Mines and Technical Surveys—			
Administration*.....	242	231	11
Surveys and Mapping Branch*.....	2,113	2,071	42
Geological Survey*.....	734	672	62
Mines Branch*.....	681	674	7
International Boundary Commission*.....	29	29	—
Dominion Coal Board.....	19	20	(1)
Other*.....	340	310	30
	4,158	4,007	151
National Defence (Civilian Staffs)—			
Departmental administration.....	661	670	(9)
Inspection services.....	1,409	1,409	—
Royal Canadian Navy.....	11,583	11,973	(390)
Canadian Army.....	17,587	18,417	(830)
Royal Canadian Air Force.....	13,754	14,022	(268)
Defence research and development.....	2,926	2,926	—
	47,920	49,417	(1,497)
National Gallery*	70	75	(5)
National Health and Welfare—			
Departmental administration.....	357	360	(3)
National Health Branch*.....	3,829	3,741	88
Welfare Branch.....	898	906	(8)
General.....	171	159	12
	5,255	5,166	89
National Research Council.....	2,616	2,590	26
National Revenue—			
Customs and Excise Divisions*.....	8,445	8,453	(8)
Taxation Division*.....	7,878	8,034	(156)
Tax Appeal Board.....	20	17	3
	16,343	16,504	(161)
Northern Affairs and National Resources—			
Departmental administration*.....	203	197	6
National Parks Branch*.....	157	147	10
National parks and historic sites*.....	2,369	2,323	46
Water Resources Branch*.....	251	248	3
Northern Administration Branch*.....	702	666	36
Yukon Territory*.....	57	57	—
Northwest Territories and other field services*.....	516	464	52
National Museum of Canada*.....	113	110	3
Canadian Government Travel Bureau*.....	104	98	6
	4,472	4,310	162

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—*Continued*

	Employees Authorized		Increase (Decrease)
	March 1962	March 1961	
DEPARTMENTS (Continued)			
Post Office—			
Departmental administration.....	338	339	(1)
Operations*.....	26,823	25,959	864
Financial services.....	404	414	(10)
	27,565	26,712	853
Privy Council Office.....	197	169	28
Public Archives and National Library—			
Public Archives.....	120	115	5
National Library.....	48	43	5
	168	158	10
Public Printing and Stationery*.....	461	453	8
Public Works—			
General administration*.....	1,724	1,703	21
Maintenance and operation of public buildings*.....	6,935	6,894	41
Harbours and rivers engineering service*.....	609	617	(8)
Development engineering service*.....	152	149	3
	9,420	9,363	57
Royal Canadian Mounted Police (Civilian Staff).....	1,201	1,158	43
Secretary of State—			
Departmental administration.....	60	61	(1)
Companies Division.....	25	25	—
Trade Marks Division.....	52	52	—
Bureau of Translations.....	322	320	2
Patent and Copyright Office.....	327	327	—
	786	785	1
Trade and Commerce—			
General administration*.....	1,574	1,456	118
Dominion Bureau of Statistics*.....	1,804	1,741	63
National Energy Board.....	57	57	—
	3,435	3,254	181
Transport—			
Departmental administration.....	632	578	54
Canal services*.....	482	481	1
Marine services*.....	3,898	3,690	208
Railway and Steamship services.....	7	7	—
Air services*.....	9,742	9,325	417
Air Transport Board.....	79	77	2
Board of Transport Commissioners.....	174	170	4
Canadian Maritime Commission.....	24	24	—
	15,038	14,352	686
Veterans Affairs—			
Department*.....	13,110	13,148	(38)
Canadian Pension Commission.....	387	404	(17)
Soldier Settlement and Veterans Land Act.....	890	984	(94)
	14,387	14,536	(149)
Total, Departments.....	197,331	195,310	2,021
CROWN CORPORATIONS (Note 3)—			
Atomic Energy of Canada Limited—			
Professional.....	553	535	18
Non-professional.....	1,138	1,099	39
Hourly rate.....	1,045	1,214	(169)
	2,736	2,848	(112)

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—Continued

	Employees Authorized		Increase (Decrease)
	March 1962	March 1961	
CROWN CORPORATIONS (Continued)			
Canadian Arsenals Limited—			
Salaried.....	976	1,076	(100)
Hourly rate—productive.....	787	916	(129)
Hourly rate—non-productive.....	672	787	(115)
	2,435	2,779	(344)
Canadian Broadcasting Corporation.....	7,828	7,504	324
Canadian Commercial Corporation.....	69	60	9
Canadian National Railways.....	94,216	96,621	(2,405)
Canadian Overseas Telecommunication Corporation—			
Administrative.....	92	85	7
Operating.....	323	304	19
	415	389	26
Canadian Patents and Development Limited.....	4	4	—
Central Mortgage and Housing Corporation—			
Regular.....	1,977	1,854	123
Contract and casual.....	93	37	56
	2,070	1,891	179
Cornwall International Bridge Company Limited.....	15	15	—
Crown Assets Disposal Corporation.....	99	106	(7)
Defence Construction (1951) Limited.....	441	392	49
Eldorado Aviation Limited.....	32	43	(11)
Eldorado Mining and Refining Limited—			
Administrative.....	159	197	(38)
Operating.....	781	756	25
Research.....	43	55	(12)
	983	1,008	(25)
Exports Credits Insurance Corporation.....	43	32	11
Farm Credit Corporation.....	388	308	80
The National Battlefields Commission.....	23	23	—
National Capital Commission—			
Administrative, Engineering etc.....	110	85	25
Prevailing rate—seasonal.....	287	290	(3)
Construction employees for specific works.....	172	178	(6)
	569	553	16
National Harbours Board—			
Salaried—Permanent, seasonal and temporary.....	862	862	—
Prevailing rate—Permanent, seasonal and temporary.....	1,485	1,407	78
	2,347	2,269	78
Northern Canada Power Commission—			
Administrative.....	37	36	1
Operating.....	150	167	(17)
	187	203	(16)
Northern Ontario Pipe Line Crown Corporation.....	—	3	(3)
Northern Transportation Company Limited.....	38	42	(4)

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—*Concluded*

	Employees Authorized		Increase (Decrease)
	March 1962	March 1961	
CROWN CORPORATIONS (Continued)			
Polymer Corporation Limited—			
Salaried.....	958	932	26
Hourly rate.....	1,735	1,696	39
	2,693	2,628	65
The St. Lawrence Seaway Authority—			
Administrative and Engineering.....	250	297	(47)
Operations.....	667	645	22
Maintenance.....	575	654	(79)
	1,492	1,596	(104)
Trans-Canada Air Lines—			
Flying personnel.....	1,538	1,549	(11)
Other personnel.....	10,220	10,047	173
	11,758	11,596	162
Total, Crown Corporations.....	130,881	132,913	(2,032)
OTHER INSTRUMENTALITIES (Note 3)—			
Bank of Canada.....	980	993	(13)
Canada Council.....	32	32	—
The Canadian Wheat Board.....	619	687	(68)
The Custodian.....	17	17	—
Industrial Development Bank.....	427	279	148
National Film Board.....	645	680	(35)
National Productivity Council.....	10	2	8
Total, Other Instrumentalities.....	2,730	2,690	40
TOTAL, DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES....	330,942	330,913	29

NOTES:

- (1) The boards, commissions etc., shown separately under departmental headings, are those for which outlines are included in the publication "Organization of the Government of Canada".
- (2) The numbers of employees shown for the departments are the approved Establishment figures appearing in the Details of the Estimates for 1961-62 and 1960-61. This does not take into account changes that may have been approved by Treasury Board during the year. Although seasonal, part-time and/or sessional employees are included, casual employees are not included (the numbers of man-years involved not being given in the Details of the Estimates in support of amounts provided).
- (3) The numbers of employees shown for Crown corporations and other instrumentalities are the "actual strength" figures. In the case of three Crown corporations, the following information is available with respect to establishments authorized by their executive boards:

	March 1962	March 1961	Increase (Decrease)
Canadian Broadcasting Corporation.....	8,109	7,822	287
National Capital Commission—			
Administrative, Engineering, etc.....	113	90	23
Prevailing rate—seasonal.....	474	449	25
Polymer Corporation Limited.....	2,744	2,666	78



CANADA

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS

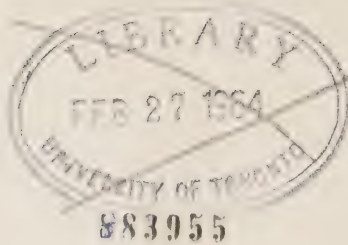
for the
FISCAL YEAR ENDED MARCH 31
1963





CANADA

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TO THE HOUSE OF COMMONS
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Exhibits

(as published in the Public Accounts)

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THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act.

2. In accordance with the requirement of section 70 of the Act, a Report is now made to the House of Commons on the results of the audit examinations for the year ended March 31, 1963. Subsection (1) of the section reads:

"The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
- (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
- (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
- (d) an expenditure was not authorized or was not properly vouched or certified,
- (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
- (f) a special warrant authorized the payment of any money,

and to any other case that the Auditor General considers should be brought to the notice of the House of Commons."

3. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1963 and the Statement of Assets and Liabilities as at that date, prepared by the Department of Finance for inclusion in the Public Accounts, have been examined and certified by me as required by section 69 of the Financial Administration Act, subject to my comments in this Report. Copies of these financial statements are attached hereto as Exhibits 1 and 2. The "Summary of Appropriations, Expenditures and Unexpended Balances, by Departments" and the "Summary of Revenue, by Main Classifications and Departments", both as included in the 1963 Public Accounts, have also been examined and certified and copies are attached as Exhibits 3 and 4.

4. This Report includes explanatory notes, in paragraphs 17 to 33, regarding the major variations between the 1962-63 and 1961-62 expenditures. There is also submitted, as Appendix 2, a "Summary of Expenditure by Standard Objects" for the year ended March 31, 1963, with comparable figures for the preceding fiscal year.

5. It will be noted from the Summary of Expenditure by Standard Objects (Appendix 2) that the two largest items of expenditure continue to be interest on the public debt and civil salaries and wages. Together they totalled \$1,782 million and represented one-quarter of the total expenditure for the year. The first of these items, namely interest on the public debt, is the subject of a detailed appendix in the Public Accounts. With respect to civil salaries and wages and following the practice of the past several years, Appendix 3 to this Report gives a summarized listing showing the numbers

of employees authorized for the public service by departments, Crown corporations and other public instrumentalities at the close of the fiscal year under review in comparison with the numbers at the close of the preceding year, prepared on the basis explained in the footnotes to the appendix.

Standing Committee on Public Accounts

6. This Standing Committee of the House of Commons last examined my whole Report in 1961 when it held 22 meetings between February 22 and June 30, 1961. At these meetings the Committee examined my Report to the House for the fiscal year ended March 31, 1960 which had been tabled on January 16, 1961. The final report of the Committee was submitted to the House on July 1, 1961 and contained 35 recommendations for improvements in various areas of government operation.

My Report for the fiscal year ended March 31, 1961 was tabled on January 31, 1962. The Public Accounts Committee, however, was not convened during the then session of Parliament.

At the following session the Committee was convened and my 1961 Report referred to it by the House. The Committee held its first meeting on December 13, 1962. In accordance with past practice, I was asked to submit a follow-up report on action taken on the 35 recommendations contained in its report to the House on July 1, 1961. In submitting this to the members of the Committee, I was able to report that in 24 of the Committee's 35 recommendations, action had been taken by the departments and agencies concerned which I felt the Committee might consider appropriate in the circumstances.

My Report for the fiscal year ended March 31, 1962 was tabled on January 21, 1963 and referred to the Committee on January 23rd. At the request of the House, the Committee met on January 29th to consider two of the matters dealt with in that Report, namely the refusal of access to certain income tax files and my difficulties in recruiting Audit Office staff under existing governmental recruitment procedures. These matters were considered by the Committee further on February 1 and February 5, 1963, following which the Committee submitted its report thereon. This ended the Committee's work as Parliament was dissolved on February 6, 1963.

Consequently, neither my 1961 nor 1962 Report (except for the two matters referred to above) has yet been examined by the Public Accounts Committee. However, on October 29, 1963 my 1962 Report was referred by the House to the reconstituted Committee, which resumed sittings on November 8, 1963 and is currently in session.

Scope of the Audit

7. Examinations of the departmental accounts for the year ended March 31, 1963 were made in conformity with section 67 of the Financial Administration Act which reads:

"The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion

- (a) the accounts have been faithfully and properly kept,
- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
- (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property."

In my Report to the House of Commons for the fiscal year ended March 31, 1962 I stated that it had not been possible to carry forward the comprehensive audit approach to the extent outlined to the House in my 1960 Report and to the Public Accounts Committee both in 1960 and 1961, for the reason that I continued to be unable, under existing governmental recruitment procedures, to obtain the full staff approved for my Office by the Treasury Board.

The same unsatisfactory situation continued throughout the fiscal year under review. Our examinations are conducted on a test basis, the extent of the tests varying according to the nature of the transactions and the effectiveness of internal controls. The extent to which these test examinations had to be limited by recruitment difficulties continued to be a matter of serious concern. As I stated in my Report last year, there are altogether too many instances where staff shortages result in the Audit Office being unable to carry out its test examinations with sufficient frequency or in sufficient depth to achieve even the minimum standard required by modern accepted auditing practice.

The Public Accounts Committee has had this problem under examination since 1960 and has recommended that appropriate steps be taken to authorize the Auditor General to recruit and manage his own staff. In its Second Report 1963 tabled in the House of Commons on February 5, 1963 the Committee rendered the following opinion:

"The Committee on two previous occasions has recommended that immediate attention be given to the problem of recruitment of staff by the Auditor General and sees no reason at the present time to alter its recommendations made in two previous years.

"The Committee gave consideration to section 65 of the Financial Administration Act and to section 74 of the Civil Service Act.

"The Committee is of the opinion that consideration be given to amending section 65 of the Financial Administration Act so as to authorize that the Auditor General recruit and manage his own staff with the approval of the Treasury Board and that in the meantime the Civil Service Commission should immediately reconsider its position with respect to section 74 of the Civil Service Act, since the Committee is convinced that the special character of the Auditor General's work requires that this be done."

As no action had been taken by the Executive to implement the recommendation in whole or in part by the time the reconstituted Committee opened its 1963 meetings on November 8th, the Committee asked the Auditor General and the Chairman of the Civil Service Commission to explore the problem further and report back to the

AUDITOR GENERAL'S REPORT

Committee on November 22, 1963. On that date they jointly advised the Committee as follows:

1. The Auditor General and the Civil Service Commission have reached agreement on the steps to be taken to achieve the objectives of the Auditor General in the area of recruitment, selection and negotiation with candidates for positions in his Office. While giving the Auditor General freedom to recruit staff, these steps contemplate adherence to the basic personnel policies and standards sought for the Canadian public service by the Civil Service Commission, and the Auditor General has accepted the responsibility to see that this is maintained through the medium of effective liaison.
2. In order to facilitate the achievement of these objectives, the Civil Service Commission is seconding a senior employee from its staff to the staff of the Auditor General to handle his staff and administrative matters.

I believe that, following implementation of this arrangement, the Audit Office will be in a position to improve the scope of its work in a satisfactory manner. The staff shortage which has existed has, of course, continued to limit the scope of work during the now current 1963-64 fiscal year. However, I look forward to being able to report progress in this regard with respect to the fiscal year 1964-65.

Subject to the limitations in the scope of our work, referred to above, our examinations were made in accordance with generally accepted auditing standards and continued to include a general review of the accounting procedures and systems of internal control together with such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

The attention of responsible administrative and accounting officers was directed to transactions which, in the Audit Office view, were not in harmony with annual parliamentary appropriations or continuing statutory financial directions, or which lacked conformity with executive orders or regulations.

Our examinations extended to all departments, Crown corporations and other agencies of the Government of Canada, excepting those listed in paragraph 133 whose accounts were subject to examination by other auditors.

The accounts relating to the receipts and disbursements of the Audit Office were examined by an officer of the public service nominated for the purpose by the Treasury Board, as required by section 75 of the Financial Administration Act.

During the course of their work, members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown corporations and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I take pleasure in expressing my appreciation for the co-operation thus extended by departmental and Treasury officers and by the administrative and accounting officers of Crown corporations and other agencies.

The Audit Office has addressed detailed reports to the executive boards of Crown corporations and other agencies covering the results of its examinations during the past year. These reports give a broad summary of the results of operations for the financial year in comparison with previous years, and make comments and offer suggestions regarding weaknesses in internal control and other matters noted during the course

of the audit. Where matters dealt with in these reports were considered to be of interest to the House of Commons, references are made in the relevant sections of this Report.

Internal Control

8. In previous Reports I have pointed out how, in the operations of a government department, Crown corporation or other agency, effective internal control, whether in the fields of management, finance or accounting, is of prime importance, not only to the managements concerned in the discharge of their responsibilities, but to the external auditor in planning the scope of his own work. The fundamental principles underlying this have been dealt with at length by the Royal Commission on Government Organization in Volume 1 of its Reports published on September 6, 1962, and I have been glad to note the increasing interest in and recognition of these principles by the responsible officials of our public service.

From the point of view of internal control, the three basic requirements of any organization are accurate costs, adequate periodic financial statements and an appropriate internal audit. The need for accurate costs has been partly recognized by the Department of Finance in arranging for the estimating of the annual costs of certain major common services, by departments, and showing these costs in summary memorandum form at the beginning of the several departmental sections, commencing with the Revised Estimates for 1962-63 and now continued in the 1963-64 Estimates Book. However, while showing the approximate value of major services to be received by a department from other departments in this manner does provide useful information, it continues to have the disadvantage of relating the amounts only to the department as a whole, instead of to individual appropriations relating to the various work areas or functions. I hope, however, now that a start has been made, that steps will be taken as soon as practicable to provide for all significant cost factors in the individual appropriations and thus include the actual costs of the various programs or projects in accounts of the responsible departments, because the departments benefiting from services provided by other departments cannot be expected to be conscious of costs for which they are in fact responsible unless they are charged with them and have to pay them out of their own appropriations. In my opinion this further step could be achieved without the introduction of any complex accounting procedures.

For the past several years I have referred to the need for wider use of effective periodic financial statements for the study and control of costs by government departments and other agencies so that actual performance can be measured against either budget projections based on parliamentary appropriations or actual performance in a comparable prior period, or both. The importance of this was stressed last year by the Royal Commission on Government Organization which recommended that "departments and agencies adopt modern management reporting techniques". As part of its comprehensive audit approach, the Audit Office has sought to assist departments, Crown corporations and other agencies in developing effective periodic financial statements.

As a matter of generally accepted auditing practice, the Auditor General, in the discharge of his statutory responsibilities, must have regard at all times for the

effectiveness of accounting organizations and systems, internal control and audit, including pre-audit, and the related administrative practices of departments, Crown corporations and other agencies. Internal auditing is an integral part of a department's system of management control. Its effectiveness is recognized in determining the scope of the external audit, and where the internal auditor's work is efficiently carried out, the amount of work to be performed by the external auditor can frequently be substantially curtailed. Consequently, the Auditor General is interested in the degree of management's acceptance of reported findings and recommendations of its internal auditor and in the action taken. In previous Reports I have pointed out that while many of the larger departments and Crown corporations maintain their own internal auditing staffs, a number have not taken steps along these lines even where the circumstances appear to justify it. On the other hand, we find that some internal auditing units are over-staffed and tend to duplicate the work of other groups. In the related field of pre-auditing, staffs are larger and methods more elaborate than modern practice requires.

The solution to these problems does not lie in engaging more staff but in making more effective use of the staffs presently engaged in internal auditing, including pre-audit work, coupled with a freer exchange of ideas among the various departments, Crown corporations and other agencies on internal auditing procedures, techniques and programming. At the same time, recognition should be given to the fact that internal auditing is first and foremost a management tool to ensure good performance, and therefore it should as far as is practicable be carried out under the direction of top management by staff experienced in the techniques and requirements of the particular organization if it is to be effective.

Form and Content of the Estimates

9. The importance of the Estimates of proposed spending being prepared and presented to the House of Commons in the simplest and clearest manner possible must be recognized if Parliament is to be in a position to give them the close study and consideration they deserve. The form of the Estimates is likewise important from the accounting point of view because it determines in large measure how the subsequent accounting for expenditure is maintained and reported upon in the Public Accounts. Both the form and content are important to the Auditor General because of his responsibilities to Parliament.

The Public Accounts Committee in its Fourth Report 1961, while indicating its approval of certain improvements proposed at that time by the Treasury Board staff, recognized that there were other possible changes in the form of the Estimates, some of them of a fundamental nature, and recommended that these be considered early in 1962. Consideration was, however, postponed by the Treasury Board staff pending the publication of the Reports of the Royal Commission on Government Organization, in Volume 1 of which the Commissioners dealt at length with and made a number of important recommendations concerning prevailing Estimates procedures.

On September 30, 1963 the Secretary of the Treasury Board furnished me with a copy of a report which, at the direction of the Chairman of the Treasury Board, he had

addressed to the Chairman of the Public Accounts Committee for attention when the Committee was convened and a chairman appointed. This report outlined changes in the number and nature of votes in the annual Estimates designed to reduce the number of items by consolidation of existing ones. The report states that the Treasury Board hopes to introduce these changes into the Main Estimates for 1964-65. These changes are currently being studied by the Public Accounts Committee in the course of its consideration of the form and content of the Estimates.

Since 1960 I have recommended that consideration be given to the form of the Estimates presentation with a view to providing more meaningful information, and since the four examples I gave in my 1960 Report are still pertinent, I now repeat them:

- (a) comparing the amounts estimated for the ensuing year directly with the anticipated actual expenditure for the current year, as well as with the amounts that had been estimated for the current year;
- (b) giving the estimated amounts in three columns: estimated expenditure (gross); estimated revenue; and net requirements to be voted (thus giving Parliament an opportunity to consider the sufficiency of receipts for services rendered in relation to the costs incurred);
- (c) including both operating and capital budgets of Crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving Parliament an opportunity to consider broad policies associated with their operations); and
- (d) including appropriate explanations in all cases where expenditures proposed for the year involve commitments for future years.

It is of interest to note that the Royal Commission on Government Organization, in its report referred to above, also made recommendations along these lines.

Form and Content of the Public Accounts

10. In previous Reports I have expressed the view that as the Public Accounts is in effect Canada's annual financial report to its shareholders—the general public—it should conform to the highest standards of financial reporting in the country and accordingly be presented in a clear and concise manner without being encumbered with unnecessary detail.

Although attention was given to this problem by the Public Accounts Committee in its Second Report 1961, I remain of the opinion that further consideration should be given towards summarizing or otherwise reducing the number of detailed listings presently included in the Public Accounts. On the other hand, as mentioned in previous Reports, additional important information should, I believe, be disclosed in the Public Accounts. Examples of this are to be found in paragraph 123 suggesting a more informative disclosure of accounts receivable due to the Receiver General, and in paragraph 169 suggesting the inclusion of financial statements of departmental operating activities.

In my Report last year (paragraph 93) I suggested that explanatory statements be given for revenue remissions in the Public Accounts. As more particularly mentioned in paragraph 75 herein, it is gratifying to note that this suggestion has now been adopted in the Public Accounts for the year under review (pages 37.2 to 37.7).

Findings of Royal Commission on Government Organization

11. If administrative action has caused or contributed to waste of public money, it is the duty of the Auditor General to report such instances as he considers should be brought to the notice of the House of Commons. While some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations as, for example, through the medium of the internal audit function where this exists in the various departments, Crown corporations and other agencies. Such cases are always the subject of close study by the Auditor General because of his responsibilities to Parliament.

By the same token, it is the duty of the Auditor General to study reports prepared by or for the managements of departments and agencies directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent that such reports correctly indicate where and how savings can be made, the Auditor General has a responsibility to Parliament to follow through and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to enquire why.

The past year has seen final publication by the Royal Commission on Government Organization of five volumes containing 24 reports on its examination of the organization and methods of operation of the departments and agencies of the Government of Canada. These reports, which have been the subject of widespread publicity, contain several hundred recommendations many of which deal directly or indirectly with areas in which public funds might be saved or better value obtained for money spent. The reports and the recommendations they contain are the subject of continuing study by a government office specifically created for the purpose, namely, the Bureau of Government Organization which is responsible to the President of the Privy Council. The Bureau is engaged in assessing the practicability of the various recommendations and in co-ordinating efforts by the managements concerned toward remedying the situations disclosed. It is essential that all of the Commissioners' findings be thoroughly reviewed and discussed with the responsible officials in this way before final solutions can be developed and decisions taken to implement the recommendations in whole or in part, or not at all. On November 5, 1963 the President of the Privy Council tabled in the House of Commons a listing of 68 of the Commissioners' recommendations which the government has approved to date and in respect of which implementation is proceeding.

The real value of a report of this type to top management lies in the accuracy of the fact-finding and the manner in which the consultant assesses and presents these facts in diagnosing the situation under review. Recommendations he may make toward remedying undesirable features of such situations are important but the decision as to the extent such recommendations are to be implemented is the responsibility of the management.

It is not my intention to express views at this time on any of the individual recommendations. With regard to the Commissioners' findings, however, I believe it to be

of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with not only in the interest of improving efficiency but because of the substantial savings of public funds which could result.

I shall consider it to be my responsibility to follow through on the action taken on such findings of the Royal Commission on Government Organization and to report thereon to the House of Commons.

Summary of Expenditure and Revenue

12. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1963, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as Exhibit 1 to this Report. The statement shows a deficit of \$692 million for the year, in comparison with a deficit of \$791 million for the preceding year.

Expenditure

13. The Summary of Appropriations, Expenditures and Unexpended Balances, by Departments, for the year ended March 31, 1963, as published in the Public Accounts, is reproduced as Exhibit 3 to this Report and shows appropriations of \$6,690 million, expenditure of \$6,570 million and unexpended balances of \$120 million.

14. Of the \$6,690 million of appropriations available for expenditure in the year, \$2,588 million was provided by continuing statutory authorities and \$4,063 million was granted by Appropriation Acts (Nos. 3, 5, 6, 7 and 8 of 1962 and the Special Appropriation Act, 1963) while \$39 million remained available from continuing 1961-62 appropriations (Votes 614 and 662).

Of the \$6,570 million of expenditure during the year, \$2,588 million (39%) was incurred under the continuing statutory authorities, with \$3,982 million (61%) being spent under the authority of the appropriations granted for the year.

Of the \$120 million of unexpended balances at the end of the year, \$93 million lapsed in compliance with section 35 of the Financial Administration Act and \$27 million of the Department of Labour Vote 32a remained available for expenditure in 1963-64 because of the special wording in the appropriation, which is as follows:

"Payments in accordance with terms and conditions approved by the Governor in Council to Provinces and in respect of Indian Bands under the Municipal Winter Works Incentive Program during the 1962-63 and 1963-64 fiscal years of amounts not exceeding one-half of the cost of labour incurred in the period from the 15th day of October, 1962 to such day in the fiscal year 1963-64 as may be determined by the Governor in Council; and to authorize payments in those fiscal years to Provinces in respect of previous Municipal Winter Works Incentive Programs in accordance with terms and conditions approved by the Governor in Council—\$30,000,000."

The date determined by the Governor in Council in accordance with this provision was May 31, 1963.

15. In considering the total of \$93 million for lapsed balances at the close of the fiscal year (lapsed balances totalled \$247 million at the close of the preceding year) it should be kept in mind that Parliament had not, up to the time of its dissolution on February 6, 1963, approved the Main or Supplementary Estimates for the year and the financing of expenditure was therefore by means of interim supply during the first ten months of the year and Governor General's special warrants during the last two months of the year. The amount of \$93 million largely represents the extent to which provision was made by the special warrants beyond what proved to be required to make "payments urgently required for the public good". Comments regarding the procedure followed in determining the amounts provided by the special warrants are made in paragraph 45 of this Report.

16. The following table summarizes the expenditure, by departments, for the fiscal year 1962-63, in comparison with the corresponding amounts for the two previous years:

	1960-61	1961-62	1962-63
Agriculture	\$ 264,915,000	\$ 286,684,000	\$ 234,827,000
Canadian Broadcasting Corporation	66,766,000	78,161,000	80,816,000
Citizenship and Immigration	61,049,000	65,016,000	66,237,000
External Affairs	103,023,000	95,571,000	85,197,000
Finance	1,460,027,000	1,511,953,000	1,355,080,000
Labour	121,336,000	168,885,000	348,236,000
Mines and Technical Surveys	59,120,000	67,599,000	71,130,000
National Defence	1,517,531,000	1,626,104,000	1,574,854,000
National Health and Welfare	887,147,000	1,040,276,000	1,123,421,000
National Revenue	73,261,000	75,330,000	78,608,000
Northern Affairs and National Resources ..	71,613,000	79,367,000	87,564,000
Post Office	178,372,000	185,003,000	189,344,000
Public Works	200,892,000	188,813,000	171,385,000
Royal Canadian Mounted Police	56,023,000	60,497,000	65,424,000
Trade and Commerce	24,447,000	42,447,000	30,365,000
Transport	336,447,000	410,391,000	416,019,000
Veterans Affairs	292,298,000	333,223,000	335,602,000
Other departments	183,834,000	205,326,000	256,233,000
	<u>\$ 5,958,101,000</u>	<u>\$ 6,520,646,000</u>	<u>\$ 6,570,342,000</u>

Comments are made in the following paragraphs regarding the significant increases or decreases in individual appropriations or groups of appropriations which mainly accounted for the variations between the departmental expenditure totals listed above for 1961-62 and 1962-63.

17. *Agriculture.* The decrease of \$52 million or 18% in expenditure by this Department in 1962-63 in comparison with the preceding year was more than accounted

for by decreases of \$40 million—from \$47 million to \$7 million—in the deficit of the Prairie Farm Emergency Fund (see paragraph 46), \$40 million in payments to western grain producers (there being payments of only \$139,000 in 1962-63) and \$14 million in assistance payments on storage costs of grain. However, these reductions in the Department's expenditures were partly offset by an increase of \$50 million—from \$22 million to \$72 million—in the net operating loss of the Agricultural Stabilization Board, mainly due to payments for the stabilization of the price of butter.

18. *Canadian Broadcasting Corporation.* The appropriations providing for grants to this Corporation were charged \$81 million during the year, an increase of \$3 million or 3.3% over 1961-62. The increase was due to the higher net operating requirements of the radio and television services which amounted to approximately \$73 million in 1962-63 compared with \$70 million in the preceding year.

19. *External Affairs.* The decrease of \$10 million or 11% in this expenditure was more than accounted for by a reduction of \$8 million (17%) in contributions to the Colombo Plan Fund, and to there being no expenditure in the year comparable to the \$6 million outlay in 1961-62 for the United Nations Congo Ad Hoc Account. On the other hand, there were increases of \$2 million in the cost of representation abroad and \$1.5 million in direct assistance to other countries.

20. *Finance.* The 1962-63 expenditure of \$1,355 million by this Department was \$157 million or 10% less than the total spent in the preceding year. There was a significant decrease of \$261 million—from \$503 million to \$242 million—due to the termination of payments under the Federal-Provincial Tax-Sharing Arrangements Act, 1956, c. 29 (under the Federal-Provincial Fiscal Arrangements Act, 1960-61, c. 58, payments of \$368 million were made to the provinces with effect from April 1, 1962 out of a special account to which are credited provincial taxes collected on behalf of the provinces). The decrease of \$261 million was partly offset by increases of \$79 million (10%) in interest on the public debt, \$10 million in premium, discount and exchange expense (a credit in 1961-62) and \$7 million (36%) in grants to universities.

21. *Labour.* Expenditure by this Department increased by \$179 million or 106% over the preceding year, largely accounted for by payments to the provinces to provide financial assistance for vocational and technical schools and training programs increasing by \$172 million—from \$36 million to \$208 million.

22. *Mines and Technical Surveys.* The increase of \$4 million or 5% in this expenditure in 1962-63 was largely due to an increase of \$3 million (22%) in outlays under the Emergency Gold Mining Assistance Act, R.S., c.95.

23. *National Defence.* The expenditure of \$1.575 million in 1962-63 by this Department was \$51 million or 3% less than in the preceding year due to a reduction of \$67 million (9%) in expenditure of the Royal Canadian Air Force, partly offset by an increase of \$14 million—from \$11 million to \$25 million—in Mutual Aid to NATO countries. Expenditures of the other Services were approximately the same as in 1961-62.

24. *National Health and Welfare.* The expenditure of \$1,123 million represented an increase of \$83 million or 8% in 1962-63 compared with the preceding year and was largely accounted for by increases of \$53 million (19%) in the Government's contributions under the Hospital Insurance and Diagnostic Services Act, \$11 million (2%) in family allowance payments and \$7 million (24%) in old age assistance.

25. *National Revenue.* Of the \$3.3 million or 4.4% increase in expenditure recorded for this Department in 1962-63, \$0.7 million (1.7%) was in the Customs and Excise Division and \$2.6 million (7.3%) in the Taxation Division, due to general increases in administrative costs in both Divisions.

26. *Northern Affairs and National Resources.* Expenditure by this Department increased by \$8 million or 10% in comparison with 1961-62. The most significant change was in the Northern Administration Branch where expenditure was up \$10 million—from \$32 million to \$42 million. Expenditure by the Water Resources Branch was up \$3 million, more than doubling the amount spent by this Branch in the preceding year. These increases were partly offset by decreases of \$3 million (10%) in the amount spent by the National Parks Branch and of \$2 million (14%) in contributions to provinces to assist in the development of roads leading to resources.

27. *Post Office.* This expenditure increased by \$4 million or 2% in the year, due mainly to general increases in the cost of operations.

28. *Public Works.* The decrease of \$17 million or 9% in expenditure by this Department compared with the preceding year was mainly accounted for by a reduction of \$9 million (21%) in outlays connected with the construction of the Trans-Canada Highway and one of \$6 million (18%) in harbours and rivers engineering services.

29. *Royal Canadian Mounted Police.* Expenditure incurred by the Force increased by \$5 million or 8% during 1962-63 mainly in the cost of operation and maintenance of the Land, Air and Training Divisions.

30. *Trade and Commerce.* Expenditure by this Department decreased by \$12 million or 28% during the year under review due primarily to the decrease of \$11 million in outlays by the Dominion Bureau of Statistics—from \$12 million to \$1 million—in respect of the 1961 Decennial Census of Canada.

31. *Transport.* Although the expenditure of \$416 million by this Department in 1962-63 represented an increase of only \$6 million or 1.4% over the preceding year, there were significant changes in several individual expenditure classifications. There were increases of \$20 million—from \$2 million to \$22 million—in capital subsidies for the construction of commercial and fishing vessels, \$12 million (42%) for railway and steamship services, and \$9 million (18%) for marine services. Largely offsetting these increases were reductions in the deficits of the Canadian National Railways and Trans-Canada

Air Lines of \$18 million (27%) and \$3 million (45%) respectively, and a decrease of \$13 million (9%) in air services, together with a decrease of \$3 million (3%) in outlays by the Board of Transport Commissioners.

32. *Veterans Affairs.* An increase of \$8 million (9%) in war veterans allowances and other benefits was largely offset by minor decreases in other items of expenditure classification resulting in the over-all expenditure of \$336 million by this Department being only \$2 million or 0.7% more than in the preceding year.

33. *Other departments.* The increase of \$51 million in the amount shown for "other departments" in the table in paragraph 16 was due largely to the \$25 million write-off in 1962-63 of the undepreciated capital cost of the NRU reactor of Atomic Energy of Canada Limited and the \$11 million expenditure by the Office of the Chief Electoral Officer for the general election in June 1962.

Revenue

34. The Summary of Revenue, by Main Classifications and Departments, for the year ended March 31, 1963, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General, is reproduced as Exhibit 4 to this Report. The summary shows tax revenues accounting for \$5,237 million of the total revenue of \$5,879 million.

35. The following table summarizes the revenue, by principal sources, for the past three years:

	<u>1960-61</u>	<u>1961-62</u>	<u>1962-63</u>
Tax revenues:			
Personal income tax	\$ 1,711,160,000	\$ 1,792,656,000	\$ 1,744,626,000
Corporation income tax	1,276,629,000	1,202,054,000	1,182,837,000
Income tax on dividends, interest, etc., going abroad	88,174,000	112,306,000	129,137,000
Sales tax	720,617,000	759,678,000	805,971,000
Other excise taxes	290,658,000	262,526,000	260,378,000
Customs duties	498,698,000	534,516,000	644,992,000
Excise duties	344,945,000	362,799,000	381,866,000
Estate tax	84,879,000	84,579,000	87,143,000
Other tax revenues	17,000	51,000	27,000
	<u>5,015,777,000</u>	<u>5,111,165,000</u>	<u>5,236,977,000</u>
Non-tax revenues:			
Return on investments	283,769,000	307,502,000	311,861,000
Net postal revenue	173,594,000	183,679,000	192,772,000
Other non-tax revenues	144,540,000	127,278,000	137,099,000
	<u>601,903,000</u>	<u>618,459,000</u>	<u>641,732,000</u>
	<u>\$ 5,617,680,000</u>	<u>\$ 5,729,624,000</u>	<u>\$ 5,878,709,000</u>

36. The amounts shown for income taxes and sales tax do not include collections of taxes levied under the Old Age Security Act, R.S., c.200. These collections, which amounted to \$691,139,000 in the year, were credited to the Old Age Security Fund. A summary of the transactions relating to this Fund during the year, in comparison with the corresponding amounts for the two previous years, is given in paragraph 106.

37. *Excise taxes.* The following is a summary of the excise taxes, other than sales tax, collected during the year ended March 31, 1963, with comparable amounts for the two previous years:

	<u>1960-61</u>	<u>1961-62</u>	<u>1962-63</u>
Cigarettes	\$ 172,197,000	\$ 185,176,000	\$ 195,313,000
Manufactured tobacco	18,697,000	19,599,000	19,123,000
Toilet articles and preparations	8,406,000	9,397,000	10,142,000
Television sets and tubes	8,466,000	9,570,000	10,059,000
Phonographs, radios and tubes	7,460,000	8,853,000	9,875,000
Jewellery, clocks, watches, chinaware, etc.	5,943,000	5,577,000	5,793,000
Wines	3,224,000	3,350,000	3,727,000
Cigars	2,755,000	2,775,000	3,372,000
Sundry excise taxes	4,212,000	3,943,000	3,350,000
Automobiles	59,627,000	25,270,000	
Refunds and drawbacks	— 329,000	— 10,984,000	— 376,000
	<u>\$ 290,658,000</u>	<u>\$ 262,526,000</u>	<u>\$ 260,378,000</u>

The reduction of \$34 million in 1961-62 in collections of excise tax on automobile sales, and the elimination of such collections in 1962-63, resulted from the repeal of the tax effective June 21, 1961. The repeal of this tax, which was accompanied by remission of the tax on automobiles in the hands of dealers, also resulted in the large amount of refunds and drawbacks in 1961-62.

38. *Customs duties.* The increase of \$110 million in customs duties in 1962-63, in comparison with the preceding year, was largely due to the collections under the Surcharge on Imports Order of June 24, 1962, by means of which customs duties on various classes of imports were increased by 5%, 10% or 15% ad valorem, and which remained in effect, with modifications, during the balance of the fiscal year.

39. *Excise duties.* A listing of the excise duties collected during the year ended March 31, 1963, in comparison with the corresponding amounts for the two previous years, is given in the following table:

	<u>1960-61</u>	<u>1961-62</u>	<u>1962-63</u>
Cigarettes	\$ 140,365,000	\$ 151,034,000	\$ 157,049,000
Spirits	108,502,000	114,088,000	122,099,000
Beer	90,971,000	92,716,000	98,147,000
Other excise duties	9,328,000	9,521,000	9,463,000
Refunds and drawbacks	—4,221,000	—4,560,000	—4,892,000
	<u>\$ 344,945,000</u>	<u>\$ 362,799,000</u>	<u>\$ 381,866,000</u>

40. *Return on investments.* The following is a listing of the revenue from the various investments in 1962-63, along with the comparable figures for the two previous fiscal years:

	1960-61	1961-62	1962-63
Bank of Canada	\$ 90,175,000	\$ 107,693,000	\$ 96,680,000
Central Mortgage and Housing Corporation	59,576,000	71,754,000	79,925,000
Exchange Fund Account	32,536,000	32,606,000	35,227,000
Loans to National Governments	30,280,000	29,485,000	28,145,000
Deposits with chartered banks	6,645,000	6,394,000	14,395,000
Securities Investment Account	5,063,000	15,068,000	12,351,000
Farm Credit Corporation	4,127,000	5,962,000	8,482,000
Veterans' Land Act loans	5,212,000	5,895,000	6,549,000
Northern Ontario Pipe Line Crown Corporation	4,299,000	4,310,000	4,087,000
Canadian National Railways	4,982,000	1,452,000	3,824,000
National Harbours Board	3,884,000	3,943,000	3,631,000
Eldorado Mining and Refining Limited	4,935,000	5,000,000	3,000,000
Polymer Corporation Limited	3,000,000	3,000,000	3,000,000
The St. Lawrence Seaway Authority	13,149,000		
Other loans and investments	15,906,000	14,940,000	12,565,000
	<u>\$ 283,769,000</u>	<u>\$ 307,502,000</u>	<u>\$ 311,861,000</u>

41. The amounts shown for revenue from the investment in the Bank of Canada represent the annual profits earned by the Bank and surrendered to the Receiver General as required by section 28 of the Bank of Canada Act, R.S., c.13.

The Central Mortgage and Housing Corporation amount for 1962-63 comprised \$74,337,000 (\$66,022,000 in 1961-62) of interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, R.S., c.46, and \$5,588,000 (\$5,732,000 in 1961-62) representing the profit for the Corporation's financial year ended December 31st which was transferred to the Receiver General as required by section 30 of the Act.

The absence of a return from the investment in The St. Lawrence Seaway Authority in 1961-62 and again in 1962-63 was due to the necessity of deferring payment of the interest which accrued on loans made to the Authority. Of the \$13,149,000 shown as revenue from the investment in the Authority in 1960-61, \$9,500,000 was received out of further borrowings by the Authority from the Minister of Finance expressly for the purpose of paying the interest, as was mentioned in the 1961 Report (paragraph 63).

42. *Net postal revenue.* The following table shows the gross postal revenue, less disbursements therefrom, and the resulting net postal revenue for the past three fiscal years:

	1960-61	1961-62	1962-63
Gross postal revenue	\$ 201,952,000	\$ 213,518,000	\$ 222,300,000
Disbursements—			
Remuneration of postmasters and staffs at certain classes of smaller post offices	24,050,000	25,171,000	25,239,000
Other disbursements	4,308,000	4,668,000	4,289,000
	<u>28,358,000</u>	<u>29,839,000</u>	<u>29,528,000</u>
Net postal revenue	<u>\$ 173,594,000</u>	<u>\$ 183,679,000</u>	<u>\$ 192,772,000</u>

The amounts shown for "other disbursements" mainly comprise charges on parcels mailed in Canada for delivery in foreign countries and transit charges on Canadian mail forwarded through foreign countries, together with compensation paid to messengers for special delivery of letters and parcels.

In paragraph 165 of this Report a summary is given of the Post Office transactions for the year under review, in comparison with the corresponding figures for the preceding fiscal year, together with comments on the recorded excess of revenue over expenditure.

43. *Other non-tax revenues.* An analysis of the amounts shown in the table in paragraph 35 for "other non-tax revenues" for 1962-63 with comparable figures for the two previous fiscal years is given in the following table:

	<u>1960-61</u>	<u>1961-62</u>	<u>1962-63</u>
Privileges, licences and permits	\$ 27,206,000	\$ 23,271,000	\$ 25,008,000
Proceeds from sales	23,981,000	25,902,000	26,531,000
Services and service fees	35,672,000	42,453,000	46,186,000
Refunds of previous years' expenditure	40,544,000	18,163,000	22,392,000
Miscellaneous	17,137,000	17,489,000	16,982,000
	<u>\$ 144,540,000</u>	<u>\$ 127,278,000</u>	<u>\$ 137,099,000</u>

Comments on Expenditure and Revenue Transactions

44. Reference has already been made to the statutory responsibility of the Auditor General, under section 70 of the Financial Administration Act, to call attention to specific classes of transactions observed during his examinations and also to any other matter that he "considers should be brought to the notice of the House of Commons".

Pursuant to this direction, I consider that the following matters relating to the expenditure and revenue transactions examined during the fiscal year under review should be brought to the attention of the House in this Report.

45. *Governor General's special warrants.* At the dissolution of Parliament on February 6, 1963 interim supply had been granted generally to the extent of ten-twelfths of the amount of the Revised Main Estimates 1962-63. In order to carry on the public business until such time as the new Parliament assembled on May 16, 1963, recourse was had to Governor General's special warrants, issued under the authority of section 28 of the Financial Administration Act, as a means of providing the necessary supply. The special warrants relating to the fiscal year under review were as follows:

- (a) one for \$239,143,321, on February 8, 1963, which provided funds on the basis of one-twelfth of the amount provided in the Revised Main Estimates and Supplementary Estimates (A) and (B) for 1962-63; and

- (b) one for \$402,163,293, on March 4, 1963, which provided funds estimated as sufficient to meet expenditures urgently required for the public good during the balance of the fiscal year.

In making their estimates of the amounts they required under the final special warrant for the year, departments were instructed by the Treasury Board Staff that the maximum that could be included for each vote heading should not in any case exceed the total of the amounts included in the tabled Estimates (i.e., Revised Main Estimates and Supplementary Estimates (A) and (B) for 1962-63) plus amounts included in Supplementary Estimates (C) approved by the Treasury Board (though not laid before the House of Commons) and departments were instructed to make an internal review in order to estimate the amount that would lapse in each vote and take such amount into consideration. Departments were also instructed not to include provision for Estimates items that:

- (a) were essentially legislative, or
- (b) involved accounting transactions within the Consolidated Revenue Fund that could hardly be said to involve "payments" which were urgently required.

The amounts authorized by these special warrants were subsequently included in the amounts authorized by the Special Appropriation Act, 1963 which was passed by the House of Commons on July 15, 1963.

The issuance of Governor General's special warrants is provided for by section 28 of the Financial Administration Act, subsection (1) of which reads as follows:

"Where a payment is urgently required for the public good when Parliament is not in session and there is no other appropriation pursuant to which the payment may be made, the Governor in Council, upon the report of the Minister that there is no appropriation for the payment and the report of the appropriate Minister that the payment is urgently required for the public good, may by order direct the preparation of a special warrant to be signed by the Governor General authorizing the payment to be made out of the Consolidated Revenue Fund."

It will be noted that the above subsection simply authorizes a "payment" which is "urgently required for the public good" when there is no other appropriation pursuant to which the payment may be made. The subsection does not provide for any control over the entering into of commitments during a period for which Parliament has made no provision nor does it appear to contemplate provision of a continuing spending authority to the Executive for the financing of general government services during such a period. However, this appears to have been assumed by the Treasury Board Staff in carrying out the procedure followed in preparing the special warrants for February and March 1963.

A strict interpretation of subsection (1) of section 28 would undoubtedly call for the issuance of a large number of warrants with a consequent increase in administrative handling. With clearer statutory authority we would not think the procedure whereby a single warrant is prepared in advance to cover the requirements of each month is

unreasonable provided its contents are limited to providing for payments essential for ensuring the maintenance of basic governmental services. Had this approach been fully employed in the preparation of the special warrants under review, a number of the items included therein would have been omitted because they did not meet the test of being "urgently required for the public good". Examples are as follows:

1. Both special warrants included an item "to supplement other votes, subject to the approval of the Treasury Board, for the payment of salaries, wages and other payroll items". Obviously payment of the amounts was not urgently required when the special warrants were issued, and the Governor in Council in effect delegated to the Treasury Board his authority under section 28 of the Act although there is no provision for such delegation.
2. The special warrant dated February 8, 1963 included authority for the payment of an amount of \$717,959 into the National Capital Fund. The balance at the credit of this Fund at March 31, 1963 was \$6,776,000, and it therefore cannot be said that the item of \$717,959 authorized on February 8, 1963 was "urgently required for the public good."
3. The special warrant dated February 8, 1963 also included authority for the payment of an amount of \$136,250 to the Receiver General as interest for the month of March on loans made to the National Capital Commission for the purpose of acquiring property in the National Capital Region. Comment with respect to this procedure appears in paragraph 59 of this Report. As such a payment is in effect an internal bookkeeping entry, it should not have been provided for by the special warrant.
4. Included in the special warrant dated February 8, 1963 was an amount of \$750,000 for loans to The St. Lawrence Seaway Authority. Inasmuch as Parliament had, by interim supply, authorized loans totalling \$7.5 million and the Authority borrowed only \$1 million in February 1963 and \$6 million in March 1963 of which \$4.7 million was immediately invested in short-term investments, it is obvious that the item of \$750,000 did not meet the requirement of being "urgently required for the public good".
5. Included in the two special warrants were amounts totalling \$114,950 to cover the administrative expenses of the National Gallery of Canada, without taking into consideration \$49,926 available for this purpose in the Gallery's special operating account.
6. In May 1962 the Department of Northern Affairs and National Resources was given executive authority to inform a chartered bank that provision for a grant of \$50,000 to the Dawson City Festival Foundation would be included in Estimates to be presented to Parliament in the autumn. On the strength of this, the bank advanced \$50,000 directly to the producers of a musical comedy which was to be the "center-piece" of the Dawson City Gold Rush festival. The payment of a grant of \$50,000 to the Foundation, in order that the bank might be recouped, was authorized by the special warrant issued on March 4, 1963. Since the prior concurrence of Parliament is requisite to the payment of a grant-in-aid to a non-governmental organization, it is the Audit Office view that the grant to the Foundation should not have been made under the special warrant.
7. A cheque for \$6,000 to the Corporation of the Town of Sioux Lookout in respect of utility services provided the Sioux Lookout Indian Hospital was issued on April 30, 1963 and held until June 5, by which time an agreement with the Town had been executed. The issuing of the cheque as a charge to 1962-63 Expenditure was, in our opinion, irregular because it could hardly qualify as "urgently required for the public good" when the cheque was held by the Department, and, indeed, it would have been irregular in the circumstances even if parliamentary appropriations had been available.

We would recommend that a detailed study be made of the financing problems which result when Parliament has been unable to make provision for the carrying on of governmental services between sessions. An amendment to the Financial Administration Act might then be considered which would have the effect of assuring appropriate parliamentary control in this important area.

46. *Prairie Farm Emergency Fund deficit.* The deficit in the operations of this Fund during the year ended March 31, 1963 was \$7,295,000, a decrease of \$40,438,000 from the deficit of \$47,733,000 incurred in the preceding fiscal year, which had been the largest since the inception of the Fund in 1939.

The Fund operates as a special account within the Consolidated Revenue Fund to record transactions under the Prairie Farm Assistance Act, R.S., c.213. Under the Act, a levy of 1% is imposed on the purchase price of grain purchased by licensees under the Canada Grain Act and the moneys collected, which totalled \$8,239,000 during the past year, are paid directly to the Receiver General and credited to the account. Awards made in accordance with the provisions of the Act are charged to the account and during the past year these totalled \$15,534,000.

Section 11 of the Act, in providing for this special account, states in subsection (8) that:

"If at any time the Fund is insufficient to pay awards made under this Act the Minister of Finance may, out of unappropriated moneys in the Consolidated Revenue Fund, with the approval of the Governor in Council, make an advance to the Fund of the amount required to meet the deficit."

Although crop yields had improved considerably over the previous year, it became evident once again that the Fund would be insufficient to pay the awards payable under the Act during 1962-63. Accordingly, on the submission of the Minister of Finance, the Governor in Council granted authority to the Minister to make advances to the Fund out of unappropriated moneys in the Consolidated Revenue Fund sufficient to pay awards made pursuant to the Act. The amount of such advances, \$7,295,000, was treated as a deficit and charged directly to Expenditure. As mentioned in last year's Report (paragraph 58) the Department of Finance has always followed this practice without seeking parliamentary approval.

On the other hand, the Audit Office has continuously taken the view, restated last year, that Parliament should be requested to appropriate funds to cover the deficits, and thus given an opportunity to review the results of the Fund's operations. This view was supported by the Public Accounts Committee in its Fifth Report 1961 (paragraph 27) when, after referring to the fact that the Agricultural Stabilization Act provides for the inclusion of an item in the Estimates to cover the net operating loss of the Agricultural Stabilization Board in any year, it recommended:

"that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in the Estimates to cover any deficit that might be anticipated in the operation of the Prairie Farm Emergency Fund."

Early in 1963 the Department of Agriculture gave consideration to proposing such an amendment to the Prairie Farm Assistance Act and a letter dated March 22, 1963,

addressed to the Secretary of the Treasury Board by the Deputy Minister of Agriculture, included the following:

"... the purpose of the Auditor General's recommendation for parliamentary review is appreciated, and provision for this will be included when other proposals for amendments to the Act are presented for ministerial consideration."

47. *Sale of terminal grain elevator.* From 1933 until August 1962 the Crown-owned terminal grain elevator located at Port Arthur was leased to and operated by a company engaged in the grain trade. Order in Council P.C. 1962-1/1643 of November 22, 1962 (amended by P.C. 1963-1/68 of January 21, 1963) authorized sale of the elevator to the lessee for \$750,000 and set the annual date of the current lease, August 1, 1962, as the effective date of sale. The elevator was not offered for sale by public tender but was sold by verbal agreement to the company, at the appraised value placed on the elevator by a firm of consulting engineers less the estimated cost of replacements and improvements required in the ensuing fiscal year. Due to delay in conveyance of title to the purchaser, stemming in part from survey imperfections in the Port Arthur waterfront area, payment was not made until April 22, 1963.

The Department of Justice in completing the transaction raised the question of a possible claim by the Crown for interest from the effective date of sale (August 1, 1962) to the date of payment (April 22, 1963). Correspondence on the files of the Department of Agriculture disclosed that the verbal agreement had failed to provide for payment of any interest on the purchase money after the effective date of sale, or for payment of rent. Therefore no claim for interest was made, and the rent which had been paid by the purchaser for the period August 1, 1962 to January 31, 1963, in the amount of \$37,500, was refunded.

48. *Questionable charge to Agriculture appropriation (Vote 164).* This appropriation reads:

"Amount required to recoup the Agricultural Products Board Account to cover the net operating loss recorded in the Account as at March 31, 1963—\$870,014."

The amount of \$870,014 recorded for the net operating loss of the Agricultural Products Board for the year ended March 31, 1963 included \$364,000 for donations of 4,064,000 pounds of skim milk powder to international charitable organizations. The donations were made in consultation with the Department of External Affairs and the authority relied on was Order in Council P.C. 1962-1576 of November 6, 1962 which purported to be issued pursuant to subsection (1) of section 4 of the Agricultural Products Board Act, R.S., c.4. This subsection reads, in part:

"Subject to the regulations, the Board may, with the authority of the Governor in Council and under the direction of the Minister

(c) buy, sell, or import agricultural products."

Since there is no reference to donations in this subsection, or elsewhere in the Act, the propriety of the Board's donating the skim milk powder to the international charitable organization—and, therefore, the propriety of reimbursing the Board out of Agriculture

Vote 164 for this portion of the Board's net operating loss—is open to question. By way of contrast, during 1960-61 the Board was reimbursed for a similar donation by the Department of External Affairs from Vote 673 of that fiscal year, which gave specific authority as follows: "To reimburse the Agricultural Products Board Account for whole milk powder donated for international relief purposes—\$2,420,000".

49. *General election expenditures.* The 1962-63 accounts include expenditures of \$10,325,533 in respect of the general election held on June 18, 1962 and expenditures of \$1,137,813 towards the cost of the general election held on April 8, 1963. Up to the end of August 1963, expenditures on the two elections amounted to \$10,556,889 and \$12,225,517 respectively, with an estimated \$100,000 of accounts remaining to be approved for payment in connection with the 1963 election. The increase in the cost of the second election was due largely to upward revisions in the tariffs of fees authorized by the Governor in Council by Orders in Council P.C. 1963-188, P.C. 1963-189 and P.C. 1963-190 of February 6, 1963. The allowances payable to returning officers were increased by approximately 25%, with the minimum allowance for personal services remaining at \$1,500. There were similar increases in the allowances provided for other election officers, including deputy returning officers, poll clerks, enumerators and election clerks. Allowances for other services, travelling expenses, and printing were also increased, and the allowance for the rental of each ordinary polling station established in a building was increased from \$20 to \$24.

The following financial aspects of the administration of the two general elections were noted in the audit:

1. *ADVANCE POLLS.*—Under the provisions of the former Canada Elections Act, R.S. 1952, c. 23, the privilege of voting at an advance poll was restricted to persons whose occupations necessitated absence from their ordinary places of residence on polling day. It was also provided that if a total of less than 15 votes were cast at an advance poll, the Chief Electoral Officer should delete the name of that place from the authorized schedule of advance polls.

The Canada Elections Act, 1960, c. 39, extended the privilege of voting at an advance poll to any elector who has reason to believe that he will be absent from his polling division and unable to vote on the ordinary polling day, with a consequent increase in the number of advance polls, but the provision regarding the disestablishment of an advance poll where less than 15 votes were cast was not incorporated in the 1960 Act.

Less than 15 votes were cast at each of 586 of the 1,862 advance polls established for the 1962 election and no votes were cast at 35 of these polls. The cost of the 586 polls was estimated at \$76,000. There were 1,791 advance polls for voters in the 1963 election, of which 578 reported less than 15 votes each. No votes were cast at 26 of the advance polls, one vote was cast at each of 44 polls and two votes were cast at each of 34 polls.

2. *REVISION OF BOUNDARIES OF POLLING DIVISIONS.*—Section 11(1) of the Canada Elections Act provides that the polling divisions shall be those established for the last general election, unless the returning officer considers that a revision of the boundaries thereof is necessary. General revisions of boundaries were ordered by the Chief Electoral Officer in January 1961, in January 1962 and in July 1962, the cost in each case approximating \$150,000. Instances were noted where the descriptions of boundaries, after revision,

were identical with the descriptions of the polling divisions given in the Notice of Grant of Poll at the previous general election. It was explained that the main purpose in ordering the general revisions was to keep the election machinery in a state of preparedness.

3. **ADVANCES MADE TO ELECTION OFFICERS.**—It has been the practice over the years to make accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. In June 1958, when authority could not be found for the making of such advances, we suggested to the Chief Electoral Officer and to the Comptroller of the Treasury that, until such time as the Canada Elections Act might be amended, the claims should be paid by separate cheques issued from the Office of the Comptroller of the Treasury at Ottawa, and sent direct to each person entitled to payment, as stipulated in paragraph (b) of subsection (3) of section 60 of the Act.

The provisions of section 60 were re-enacted, without material change, in the Canada Elections Act, 1960, c. 39, and in April 1962 we again drew attention to the lack of authority for advances to election officers. During the ensuing 1962 election, some \$400,000 was advanced to election officers, the advances to individuals ranging from \$200 to \$10,000. It was noted that 32 of the 263 returning officers did not request or receive advances.

The Chief Electoral Officer, in his report to the Speaker of the House of Commons on the 1962 general election, recommended that the Canada Elections Act be amended to provide authority for the payment of an accountable advance to an election officer, limited to an amount deemed necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

Although the proposed amendment was not enacted, \$373,000 was advanced to returning officers for the payment of expenses in connection with the 1963 general election.

4. **RENTAL OF FURNITURE FOR ORDINARY POLLING STATIONS.**—The Elections Fees Tariff provides an allowance (\$20 in 1962; \$24 in 1963) for the rental of each ordinary polling station established in a building or part of a building, including fuel, light and furniture, and when a number of polling stations are centralized in a hall or municipal building the allowance is paid for each polling station established therein. In the audit of the 1962 election accounts, additional expenditures were noted for the cartage and rental of furniture without a corresponding reduction in the amounts paid to the landlords.

When a new tariff of fees was authorized in February 1963 the item which provides for the necessary rental or purchase of screens or any material used for voting compartments in polling stations was extended to include the rental of furniture.

5. **PRINTING OF BALLOT PAPERS.**—As in the 1957 and 1958 general elections, the number of ballot papers printed in some electoral districts in 1962 and 1963 far exceeded the number of electors. An excess of more than 40% was noted in 20 districts in 1962 and in 28 districts in 1963. In one constituency with 18,000 electors, 26,400 ballot papers were printed in 1962 and 30,000 in 1963.
6. **TRAVELLING ALLOWANCES PAID TO ELECTION CLERKS.**—There is provision in the tariff of fees for the payment of mileage to an election clerk when he is required to travel in connection with the conduct of an election. When it was observed in the audit of the 1962 election accounts that payments had been made to election clerks for travelling between their places of residence and the offices where they worked, attention was drawn to the General Election Instructions for Returning Officers which state that an election clerk must be an ordinary resident of the locality where the returning officer will open his office for the conduct of the election. Payments of this nature were discontinued, but no action was taken to recover the amounts already paid.

7. EMPLOYMENT OF CONSTABLES.—The authority for the appointment of a constable at a polling station is section 48 (10) of the Canada Elections Act, which provides that:

"Any deputy returning officer may appoint a constable to maintain order in his polling station throughout polling day; this authority, however, shall not be exercised unless the services of such constable are deemed absolutely necessary; a constable may be appointed only when there is actual or threatened disorder, or when it is likely that a large number of electors will seek to vote at the same time; generally the appointment of one constable shall be made where more than one polling station is established in the same building or in adjoining buildings for a given polling division, to ensure the successive and prompt entrance of the electors into their proper polling station."

Just prior to the 1962 election, the Chief Electoral Officer circularized the returning officers in 52 electoral districts regarding the employment of an excessive number of constables on election days in 1957 and 1958 (referred to in paragraph 101 of our 1958 Report). As a result there were 2,183 fewer constables employed in 1962 than in 1958, although the number of polling stations had increased by 2,823. The reduction in the number of constables employed would have been greater had there not been included in the tariff of fees an additional item providing an allowance of \$6 for the services of a constable at an advance polling station. In some districts constables were employed at advance polling stations where few, if any, electors voted (in one district where only four electors voted in advance of polling day, constables were employed at each of the five advance polling stations). Constables were also employed at some revisal offices, and payments (at \$15 per day in 1962 and \$17 per day in 1963) were made to a number of women who acted as special constables in places where more than one polling station was located.

In a number of cases noted in the audit of the 1963 election accounts, a constable had been appointed at each polling station where two or more polling stations were established at the same location.

In two cases duplicate payments were made when two deputy returning officers each certified that the same person had acted as constable at his polling station.

8. DUPLICATE CHARGES.—For all personal services, a returning officer receives allowances based on (a) the number of names included in the preliminary lists of electors in urban areas, (b) the number of polling stations in rural areas, and (c) the number of advance polling stations established in the electoral district. Payments made to individual returning officers for personal services during the 1963 election ranged in amount from the prescribed minimum of \$1,500 to \$8,600. Cases were noted in the audit of the election accounts where payments at the rate of \$12 per day had been made to other persons, classed as election clerks and messengers, for selecting enumerators, deputy returning officers and polling stations. Normally these duties are considered to be part of the function of the returning officer.

9. ALLOWANCES PAID TO SPECIAL ELECTION OFFICERS.—The Canadian Forces General Elections Fees Tariff which was in force during the 1962 general election provided for payment of allowances to special returning officers and chief assistants, deputy special returning officers and scrutineers "for each day or part thereof of necessary absence from place of residence", and for payment of travelling and living expenses. In the audit of the accounts, cases were noted where the whole amount of the daily allowance had been paid for any portion of a day spent in travel (in some cases from 11 p.m. to midnight). The Chief Electoral Officer decided that, thenceforth, an officer who had departed from his home after 6 p.m. to take up his duties would not qualify for an allowance for that day, and that the availability of convenient transportation facilities to enable an officer to arrive at his place of duty on time would be taken into account. A number of accounts which had been approved for payment were recalled and reduced, and in other cases recovery was made from fees which became payable in respect of the 1963

election. The reference to part of a day was dropped when a new tariff of fees was approved in February 1963.

One special returning officer in 1962 was paid the prescribed allowance of \$30 per day for two days on which he had left his place of residence for Ottawa at 11.15 p.m. and for two days when he was at home. When the overpayment was collected from a subsequent account the officer claimed four days pay at \$30 per day for personal services after the closing of the election office. Payment was approved under Item 9 of the tariff of fees which states that, in any case where the allowances provided by the tariff of fees do not by reason of special circumstances constitute adequate remuneration, the Chief Electoral Officer may authorize the payment of such increased allowance as is deemed necessary to provide sufficient remuneration. It is our opinion that, in the case in question, the claim, when approved, should have been submitted to the Governor in Council for authorization under subsection (6) of section 60 of the Canada Elections Act which reads:

"Whenever it appears to the Governor in Council that the fees and allowances provided by the tariff are not sufficient remuneration for the services required to be performed at any election, or that any claim for any necessary service performed, or for materials supplied for or at an election, is not covered by such tariff, he may authorize the payment of such sum or additional sum for such services or materials supplied as is considered just and reasonable."

The Chief Electoral Officer, in his report to the Speaker of the House of Commons on the 1963 general election, suggested that section 60 of the Canada Elections Act be amended by adding thereto, immediately after the subsection quoted above, the following as subsection (6a):

"The Chief Electoral Officer may, in accordance with regulations made by the Governor in Council, in any case in which the fees and allowances provided for by the tariff are not sufficient remuneration for the services required to be performed at any election, or for any necessary service performed, authorize the payment of such sum or additional sum for such services as is considered just and reasonable."

The proposed amendment, if enacted, would provide statutory authority for payments of the kind heretofore made under Item 9 of the tariff of fees, the authority for which item has been in doubt.

50. *Grants and contributions included in general appropriation.* It is an established principle that when a grant or contribution is made out of a general appropriation, the amount should be referred to in the text of the appropriation because Parliament should sanction an outlay where no accounting is to be made of its ultimate disposition.

This principle was not followed in Citizenship and Immigration Vote 10 which reads: "Citizenship Branch including grants and contributions for citizenship promotion". Although the text refers to grants and contributions, no maximum total amount is specified nor is there reference in the Vote text to the Estimates Details. Thus, because Parliament was not asked to approve the specific amount being made exempt from ordinary conditions governing accounting for voted money, it was possible for the total of the grants and contributions as included in the Estimates Details to be increased from \$37,000 to \$47,000 by transfer between allotments pursuant to section 29 of the Financial Administration Act.

51. *Reporting for counterpart funds by recipient countries.* In previous Reports references were made to amounts that had been spent out of funds appropriated by

Parliament for the purchase of commodities supplied by Canada, in accordance with agreements with the recipient countries requiring that the commodities be sold or otherwise distributed and that "counterpart funds" be set aside by them for subsequent use in connection with agreed economic development projects. All of the agreements further require that the recipient countries from time to time report the position of their counterpart funds accounts to the Government of Canada and, in addition, certain of the agreements require that these reports be certified by the Auditors General of the recipient countries.

As at March 31, 1963 a total of \$197,752,000 had been expended on commodities calling for the establishment of counterpart funds, including \$17,576,000 expended during the year under review. With respect to those agreements requiring that the Auditors General of the recipient countries certify the position of the counterpart funds accounts, a total of \$193,893,000 had been expended by the Government of Canada and the situation as regards certification was as follows:

Certified by Auditors General of recipient countries	\$ 154,159,000
Reported but not certified	19,047,000
Unreported—previous years' expenditures	3,261,000
Unreported—1962-63 expenditures	17,426,000
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	\$ 193,893,000
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With respect to those agreements which do not call for certificates of the Auditors General of the recipient countries, a total of \$3,859,000 had been expended by the Government of Canada and the situation as regards reporting was as follows:

Reported by recipient countries	\$ 3,249,000
Unreported—previous years' expenditures	460,000
Unreported—1962-63 expenditures	150,000
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	\$ 3,859,000
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Another requirement of all the agreements with the recipient countries is that expenditures out of the counterpart funds on agreed economic development projects be reported by the recipient countries and certified by their Auditors General. At the time of our examination in October 1963 this information was not completely available and the External Aid Office was to determine the extent to which these certificates have been received.

52. *Government contributions not made to the Public Service Superannuation Account.* Subsection (2) of section 32 of the Public Service Superannuation Act, 1952-53, c. 47, reads:

"There shall be credited to the Superannuation Account, as soon as possible following the authorization of any salary increase of general application to the Public Service, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this Act, as a result of such salary increase."

In paragraph 62 of last year's Report, reference was made to the increase in the actuarial deficiency in the Superannuation Account when no special contributions were made to provide for the increased cost of benefits payable under the Act as the result of salary increases that had been granted to substantial groups of civil service classes.

It had been announced in 1961 that future pay adjustments would be based on a program of cyclical salary reviews, and the civil service classes had been divided into four large groups for review purposes.

In December 1962 the Treasury Board approved of salary increases with effect from October 1, 1961 for the group which includes the administrative, clerical and related classes with about 70,000 employees. Increases were also approved in December 1962 for nurses and hospital staff with effect from January 1, 1962 and for the Penitentiary Service with effect from April 1, 1962. Increases similar to those given civil servants were given to employees of certain Crown corporations, including many if not all of those that are under the Public Service Superannuation Act. As was the case when salary increases were approved in the two previous years, no special contribution was made to the Superannuation Account with respect to the increases granted in 1962-63.

Salary revisions for another large group of employees were approved on July 9, 1963 with effect from October 1, 1962.

Thus salary increases have been approved for practically the whole public service since 1960 without any special credits having been given to the Superannuation Account as required by subsection (2) of section 32 of the Act quoted above. The view taken by the Department of Finance that the granting of increases on a cyclical basis does not result in a "salary increase of general application" has rendered subsection (2) of section 32 of the Act inoperative, with a consequent significant increase in the actuarial deficiency in the Account.

In paragraph 124 of this Report comments are made regarding the balance at credit of the Account at March 31, 1963 and the basis of reporting the actuarial deficiency.

53. Errors in Public Service Superannuation Account pension and contribution calculations. In the 1961 Report (paragraph 61) and again last year (paragraph 63) we reported that our test examinations of the records of the Superannuation Branch of the Department of Finance had disclosed a high incidence of error, involving both overpayments and underpayments of pension on a continuing basis, and also incorrect charges for contributory service. It was pointed out in both Reports that many such errors could be avoided were there a complete review or internal audit of the contributors' files prior to authorization of the payment of benefits.

In last year's Report it was stated that we had been informed by the Secretary of the Treasury Board in May 1962 that consideration was being given to the re-establishment of the Comptroller of the Treasury's pre-audit of Superannuation Accounts which had been discontinued in 1958. This has not yet been done although various steps were taken by the Department of Finance to improve the superannuation administration and an improvement was, in fact, noted in the accounts during the year under review.

However, pension payments under the Public Service Superannuation Act, unlike those made under the Canadian Forces Superannuation Act, the Royal Canadian Mounted Police Act and the Pension Act, are made without verification by the Comptroller of the Treasury of the gross amount of any entitlement, other than a return of contributions.

During the year it was found that information concerning salary payments by Crown corporations whose employees are contributors under the Public Service Superannuation Act was no longer being received in the Central Pay Office, having been replaced by a listing of salary rates being paid as at the end of each year. In June 1962 we inquired of the Superannuation Branch as to what verification was being made of the correctness of the employees' contributions which these Crown corporations were sending in. In August 1962 we received a reply conceding that there existed a gap which should be closed and indicating that a solution to the problem would be worked out. In reply to a follow-up inquiry in October 1963, we were advised that no verification of these contributions was yet being made.

54. *Public Service Superannuation Act—questionable decisions.* Three instances were noted in which evidence of doubtful value was accepted as the basis for administrative decisions. In one of these instances there was a resulting reduction of \$4,800 in the cost of elective service to a contributor who had retired. In the two other instances contributors were able to elect to pay for service on the basis of the rate of salary received on first appointment to the public service after World War II and the rate of contributions then in effect, rather than on the basis of current rates of salary and contributions—the difference in the cost of the service amounting in one case to \$11,200 and in the other to \$8,600. This was made possible by an amendment to the Public Service Superannuation Act in 1960 and an amendment to the Regulations in 1961. The amendment to the Act reads as follows:

"30. (7) The Governor in Council may make regulations prescribing, in the case of a contributor who in the opinion of the Minister was one of a class of persons who, pursuant to erroneous advice received by one or more persons of that class, from a person in the Public Service whose ordinary duties included the giving of advice as to the counting of service under this Act or the Superannuation Act, that a period of service of such a person before the time he became a contributor thereunder could not be counted by him under the said Act, failed to elect under the said Act within the time prescribed therefor to pay for that service, the circumstances under which and the manner and time in which the contributor may elect to pay for that service, and the circumstances under which and the terms and conditions (including conditions as to interest) upon which any such election made by him to pay for that service, or any election made by him under paragraph (b) of subsection (1) of section 5 to pay for that service as a period of service described in clause (F) of sub-paragraph (iii) of that paragraph, shall be deemed to have been made by him under this Act or the Superannuation Act, as the case may be, within the time prescribed therefore by the said Act."

The three contributors (who were considered as constituting a "class") had not elected, on permanent appointment to the public service during the years 1949 to 1952, to pay for war service, and claimed subsequently that they had been misinformed as to their eligibility to elect. It could not be substantiated from departmental records that

erroneous information had, in fact, been given in these cases. The Superannuation Branch accepted a departmental officer's affidavit, taken in 1961, to the effect that he "likely" gave incorrect information to one of the contributors in 1950. A personal affidavit was accepted from one of the others and the third contributor was included in the "class" because, in previous correspondence, he had made the statement that he was ineligible to elect.

Another case is that of a contributor to the Superannuation Account who ceased active duty on September 30, 1959 and who was certified by the Department of National Health and Welfare in May 1960 as being permanently disabled. Pending the result of an attempt to have the contributor's wife appointed administrator of his affairs, action was not immediately taken to commence payment of an annuity under the provisions of the Public Service Superannuation Act. On August 1, 1961 the Superannuation Branch received a notice of termination of employment, effective July 5, 1960, which stated that retiring leave had been granted from June 1 to July 5, 1960. The Treasury Board, on October 3, 1961, having been informed that the contributor had entered hospital for domiciliary care on June 1, 1960 and had become entitled to an annuity when he retired from the public service on July 5, 1960, designated the wife as recipient of the annuity payable to her husband. In April 1962 the Superannuation Branch accepted a second notice of termination of employment which showed the date of termination as July 15, 1960 (one day after the coming into force of an amendment to the Public Service Superannuation Act which provides automatic continuation of Death Benefit coverage and for the calculation of annuities on the basis of a six-year rather than a ten-year average salary). As a result, Death Benefit coverage of \$3,750 was reinstated and the annuitant's pension was recalculated and increased by \$175 per annum.

55. *Pension increased by payment of two salaries.* In 1951 a legal opinion was given to the effect that where a civil servant on retiring leave obtains employment with a Crown corporation so that, although he may be an employee of the Crown, he is not paid out of the Consolidated Revenue Fund, there appears to be no objection to the duplicate payment of salary.

In a recent case, the receipt of two salaries for 55 days during a period of retiring leave and simultaneous employment with a Crown corporation, resulted in an increase of \$120 per annum in the amount of pension paid under the provisions of the Public Service Superannuation Act (if the contributor had been re-employed for the entire 26 weeks of his retiring leave, his pension would have been increased by approximately \$400 per annum).

The Superannuation Branch obtained legal advice before approving payment of the increased pension. If the Superannuation Account is to be protected from such cases in future, it would seem necessary to amend the Public Service Superannuation Act.

56. *Amount payable to the Superannuation Account deleted from the accounts.* It is provided in subsection (7) of section 7 of the Public Service Superannuation Act that where any amount payable by a contributor into the Superannuation Account by reservation from salary or otherwise has become due, but remains unpaid at the time

of his death, the amount with interest may be recovered, in accordance with the regulations, from any allowance payable under the Act to the widow and children of the contributor. Subsection (6) of section 5 of the regulations states:

"Where at the death of a contributor any amount payable by him into the Superannuation Account is due and payable and is not paid, the Minister shall, if the amount with interest as provided in this section is not forthwith paid by the personal representative of the contributor, demand payment from the widow and children, or one or more of them, of the contributor, to whom an allowance is payable under the Act and if the amount which is due and payable with interest to the date of demand is not paid, it may be recovered at any time and, without prejudice to any other recourse available to Her Majesty with respect to the recovery thereof, recovery may be made at any time by retention, by way of deduction or set-off out of the allowance payable to the widow and children, or one or more of them,

(a) in a lump sum immediately, or

(b) in instalments for a term specified by the Minister,

as the recipient elects, with interest at the rate of four per cent per annum."

A department took exception to the application of this regulation in the case of a deceased employee who had been undercharged for a period of elective service, and on December 20, 1962 the Governor in Council approved a recommendation of the Treasury Board, pursuant to section 23(1) of the Financial Administration Act, that the Department of Finance be authorized to delete from the accounts an amount of \$521 that had been payable into the Superannuation Account by the late contributor. The action taken in this case was contrary to the Public Service Superannuation Regulations and, as far as we are aware, is unprecedented.

If it is found desirable to relieve a person from paying into the Superannuation Account any amount that is legally payable thereto, it is the Audit Office view that an appropriation should be provided to reimburse the Account.

57. *Inadequate payment into Superannuation Account by Crown corporation.* The employees of the Canadian Overseas Telecommunication Corporation were brought under the Public Service Superannuation Act with effect from November 1, 1961, pursuant to Vote 520 of Appropriation Act No. 5, 1961 and the regulations approved by the Governor in Council on October 26, 1961. On March 18, 1963 the regulations were amended by Order in Council P.C. 1963-441 to provide for payment out of the Superannuation Account of the pensions of four former employees of the Corporation who had been retired under another pension plan. The Department of Insurance had calculated, in accordance with the interest and mortality tables used for valuation under the Public Service Superannuation Act, that an amount of \$200,013 would be required to be paid into the Superannuation Account in respect of the pension liability, but payment by the Corporation of \$184,000 (the cost of purchasing the four immediate annuities at commercial rates) was accepted, with the approval of the Treasury Board, on March 31, 1963. As a consequence, the actuarial deficiency in the Superannuation Account at March 31, 1963 was increased by some \$16,000.

58. *Reciprocal transfer agreements for superannuation benefits.* Section 28 of the Public Service Superannuation Act authorizes the Minister of Finance, with the consent of the Governor in Council and in terms approved by the Treasury Board, to enter into an agreement with any public service employer (e.g., a provincial government) for the transfer of pension credits when an employee leaves the service of one employer to become employed by the other.

In the execution of agreements, it has usually been found that the terms of the Public Service Superannuation Act require a higher rate of contribution than those established under the other plans, and that the amounts available for transfer from the Superannuation Account are in excess of the amounts required by public service employers. While there is provision in the Act for payment by the Minister to a public service employer of the amount to be transferred in accordance with a reciprocal transfer agreement (employee's contributions, Government's matching contributions and interest) there is no provision for a return of any excess amount of contributions to the employee. Nevertheless, a common provision in a typical reciprocal transfer agreement reads:

"... and any excess amount held in respect of the employee and not required to be paid by the Federal Minister to the Province will be dealt with, subject to the Federal Act, in accordance with an agreement between the Federal Minister and the employee."

We have been informed by the Superannuation Branch that "this provision is read as an agreement between the new employer and the Crown whereby the Crown, on behalf of the new employer, deals with certain moneys that would normally form part of the transfer. In other words, the Crown is empowered to transfer the whole amount, but as the second employer does not require the whole sum under the new pension plan he agrees to the Crown paying a portion of the total directly to the transferred employee".

It is our opinion that the Public Service Superannuation Act should be amended to provide for the disposition of any excess amounts of contributions in these reciprocal transfer cases.

59. *Interest charges on loans to the National Capital Commission.* In the 1961 Report (paragraph 62) and also in last year's Report (paragraph 66) it was stated that it seemed unrealistic to put the National Capital Commission in the position where it was required to pay interest on loans obtained from the Government of Canada for the purpose of acquiring property in the National Capital Region, when funds to meet the interest payments must be provided through parliamentary appropriations.

Up to March 31, 1963 loans totalling \$44,900,000 had been made to the Commission and its predecessor, the Federal District Commission (being an increase of \$9,800,000 during the year under review) for the purpose of acquiring property in the National Capital Region. Of this amount, \$3,994,000 had been repaid, leaving a balance of \$40,906,000. The loans are secured by promissory notes bearing interest payable semi-annually at rates of from 4% to 5½% per annum, and repayment is to be made when the property is "used for the purposes of the Commission or disposed of". Repayments in 1962-63 amounted to \$372,000.

Interest payments by the Commission to the Receiver General in 1962-63 amounted to \$1,776,000 and were credited to Revenue by the Department of Finance as "return on

investments". Of this amount, \$301,000 came from net income from rentals and interest on bank deposits and \$1,475,000 was provided by a parliamentary appropriation (Public Works Vote 215) for interest charges on outstanding loans.

The following is a summary of property acquisitions to March 31, 1963 financed by means of loans provided to the Commission:

Greenbelt	\$27,662,000
Industrial and railway sites, Sussex Drive and other properties	3,566,000
Queensway	3,260,000
Lebreton Flats development	2,524,000
Ottawa River Parkway	946,000
Eastern Parkway	854,000
Other Parkways	864,000
	<hr/>
	\$39,676,000
	<hr/>

The properties in the Greenbelt are mostly farm properties which are unlikely to yield anything approaching sufficient rental to pay interest on the sums paid to acquire them and, by Executive direction, they may not be sold. As the lands acquired for the Queensway, the parkways and certain other projects are put into use in the next few years, appropriations will be required to provide funds through the National Capital Fund in order to pay off the amount of loans made with respect to such lands.

We remain of the opinion that, since outlays on such properties are in fact expenditures of the Crown rather than income-producing investments, Parliament should be asked to appropriate funds to cover expenditure charges in the years in which properties are to be acquired, instead of providing for loans to the Commission and leaving the expenditure involved in the repayment of the loans to be absorbed in future years.

60. *Overpayment to province under the Federal-Provincial Tax-Sharing Arrangements Act.* The estimated population figures used in the calculations of amounts payable to the provinces under the Federal-Provincial Tax-Sharing Arrangements Act, 1956, c. 29, were subject to correction when the population figures resulting from the taking of a census became available. Accordingly, when the census figures for 1961 became available in 1962, the payments made to the provinces in the years 1958 to 1962 were recalculated resulting in additional payments being made to eight of the provinces and establishing that overpayments had been made to the other two, as follows: British Columbia, \$4,818,000; and Ontario, \$177,000.

The agreements with the provinces under the Act provide for immediate repayment of any amounts overpaid, and the overpayment to Ontario was recovered from the payment due to that Province in March 1963. The Province of British Columbia maintained that the amount of \$4,818,000 was not due immediately since the succession duty rentals have not been finally determined. An amount of \$200,000 was withheld from a payment to that Province in March 1963, leaving a balance of \$4,618,000 owing at March 31, 1963. Subsequently the Province agreed to monthly deductions of \$175,000 which are now being made from amounts payable to the Province. At the time of the

signing of the 1957-62 agreements, the provinces had been given the option of receiving a succession duty rental on the basis of the one-year yield of these taxes rather than on the basis of the three-year average as specified in the Act, provided they made their choice known at the beginning of the tax agreement period. British Columbia and two other provinces requested the one-year option. A recalculation on the basis of the one-year option is expected to result in an increase in the succession duty rentals payable to British Columbia for the fiscal years 1957-58 and 1958-59, and these will be applied to the outstanding balance of the claim mentioned above. The Department expects that the application of these amounts together with the monthly deduction of \$175,000 now being made will extinguish the debt in full by mid-1964.

61. *Indirect compensation to chartered banks.* In Paragraph 68 of last year's Report reference was made to an arrangement between the Department of Finance and the Canadian Bankers' Association whereby the banks pay interest only on the amount by which the government's minimum weekly balances on deposit are in excess of an aggregate of \$100 million. The arrangement was continued throughout the year 1962-63 and interest at a rate equivalent to the weekly average accepted treasury bill tender rate for three months treasury bills, less 10% of that rate, and amounting to \$14,395,000 was received from the banks. The corresponding amounts of interest received in the two previous years were \$6,394,000 in 1961-62 and \$6,645,000 in 1960-61. As was pointed out last year, the maintenance of substantial balances with the banks, including \$100 million interest-free, compensates them indirectly for handling cheques or other instruments payable by or to the Receiver General, in violation of the requirement of subsection (1) of section 93 of the Bank Act, 1953-54, c. 48, which reads as follows:

"No bank shall make a charge for cashing a cheque or other instrument drawn on the Receiver General or on his account in the Bank of Canada or in any other bank, or for cashing any other instrument issued as authority for the payment of money out of the Consolidated Revenue Fund, or in respect of any cheque or other instrument drawn in favour of the Receiver General, the Government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the Receiver General."

If the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1964.

62. *Isolation allowances to judges of territorial courts.* Consideration was given by the Department of Justice in the latter part of 1962 to the question of paying isolation allowances to the judges of the two territorial courts. Initially the view was taken that since judges are not in the "public service" within the meaning of section 7 of the Financial Administration Act, the Treasury Board lacked authority under that Act to authorize the contemplated allowances and that, as the Judges Act, R.S., c. 159, prohibits the payment to a judge of any remuneration, other than a living allowance and moving and transportation expenses, the authority of Parliament would be essential to the payment of isolation allowances

It was accordingly decided that, until such time as it might be regarded as appropriate to seek an amendment to the Judges Act to provide for additional remuneration to judges, each of the judges of the two territorial courts should be paid an isolation allowance pursuant to an item to be included in the earliest possible Estimates. However, Parliament was dissolved before it had an opportunity to consider an Estimates item relating to the matter. Nevertheless, with Treasury Board approval, payments of \$1,000 were made in March 1963 to each of the judges of the two territorial courts, for isolation allowances at the rate of \$2,000 per annum, effective October 1, 1962.

63. *Unemployment insurance administration.* The Unemployment Insurance Act, 1955, c. 50, is administered by the Unemployment Insurance Commission consisting of three Commissioners appointed by the Governor in Council. The administrative expenses of the Commission are paid out of an annual parliamentary appropriation (Department of Labour Vote 50) in accordance with section 10 of the Act. These expenses amounted to \$48,034,000 in 1962-63 compared with \$45,935,000 for the preceding year. Despite a reduction in full-time staff from 8,941 at March 31, 1962 to 8,726 at March 31, 1963 and in casual employees from 1,904 to 1,432 at the respective year-ends, salaries rose by \$2,242,000, due mainly to a general salary increase granted during the year. This, offset to the extent of \$285,000 by savings effected in the cost of office stationery, supplies and equipment, accounted for most of the net increase of \$2,099,000 in administrative expenses during the year.

In our 1960 Report we referred at some length to the broader coverage which had been effected over the years, and the resulting decrease in the emphasis on insurance principles recognized when the Unemployment Insurance Fund was first established. The Public Accounts Committee, having expressed concern over the sharp reduction in the balance of the Fund at that time, recommended in its Fifth Report 1961 (paragraph 80):

"that the entire matter undergo immediate and careful study and that action be taken to re-establish and maintain the Fund on a basis consistent with insurance principles."

A special Committee of Inquiry was established by the Governor in Council on July 17, 1961 to inquire into and report upon the suitability of the scope, basic principles and provisions of the Unemployment Insurance Act, including its relationship to other social security programs, the measures needed to deal with seasonal unemployment and the means of correcting any abuses or deficiencies that might be found to exist. The Committee's report was tabled in the House by the Prime Minister on December 20, 1962.

The Committee recommended the adoption of a three-part program of support for the unemployed, as follows: (i) an insurance plan to cover short-term unemployment, with benefits limited to 26 weeks, financed solely by employer-employee contributions; (ii) a plan, financed out of general taxation revenues, to provide extended benefits up to a maximum of 39 weeks to persons who have exhausted their insurance benefits and, subject to certain conditions, to persons whose unemployment follows a seasonal pattern; and (iii) an assistance plan to take care of residual 'hard core' unemployment,

applied on a needs-test basis under the present federal-provincial unemployment assistance program.

The Committee proposed that the unemployment insurance plan be based on insurance principles and to this end it recommended, in part, that:

- (a) the plan be extended to cover all but a few classes of employees;
- (b) the present seasonal benefit program be amended so that insurance benefits would not be paid during any period of unemployment that, on the basis of a claimant's personal employment record, is shown to be of a repetitive seasonal character; and
- (c) coverage of self-employed fishermen be withdrawn and replaced by a separate plan to be developed under the Department of Fisheries.

The Committee also made recommendations designed to lessen abuses to which the present plan has been subjected. These included the adoption of programs: to provide for more active claims supervision and more vigorous follow-up of cases in an effort to identify those who are not genuinely seeking employment; to improve interviewing techniques and procedures as a means of determining the true facts concerning availability for employment; and to increase the extent of post-auditing procedures in connection with claims to bring to light possible concealment of earnings.

The Public Accounts Committee, in its Fifth Report 1961 (paragraph 81), recommended:

"that the Auditor General give consideration to the advisability of increasing the scope of his examination of unemployment insurance fund transactions in the field."

Notwithstanding our continuing staff shortage, arrangements were made to increase the number of offices visited in 1962-63, by curtailing other work.

In keeping with past practice, we reported to the Chief Commissioner on each of the examinations made during the year. Prompt attention was given to all audit observations raised and corrective action taken where called for. Briefly, our examinations are designed to test the adequacy of internal control over the collection of and accounting for contributions and other income, the payment of benefits and the recording and collection of overpayments. The extent to which adjudication of claims complies with the provisions of the Act and regulations is likewise examined. In appraising the validity of benefit awards, no attempt is made by the Audit Office to verify the accuracy or completeness of information regarding claimants, contained in the records of the Commission and provided to it by claimants, employers or others, beyond questioning apparent deficiencies in these records. This aspect of the verification of claims is carried out by the Commission's own investigation-enforcement staff. Although operating at a slightly lower level of strength during 1962-63, this staff achieved a slight increase in the number of investigations completed over that of the preceding year. Notwithstanding this increase, penalties imposed on claimants for false or misleading statements were fewer in number, totalling 20,367 compared with 22,650 in 1961-62, a drop of 10%.

The transactions of the Unemployment Insurance Fund, administered by the Commission, are reported upon in paragraph 181 of this Report.

64. *National Defence administrative regulations and practices.* During the year under review, as in previous years, instances were observed where the application of administrative regulations relating to the Armed Forces had resulted in needless or uneconomical expenditure, or were otherwise unsatisfactory from the audit point of view. In accordance with past practice, all such instances have continued to be drawn to the attention of the Department, and the Services concerned have taken appropriate action to obtain amendment of the regulations or otherwise correct the situation, except in the following cases where action has not yet been taken or is still in progress:

1. **REHABILITATION LEAVE FOR FORMER MEMBERS OF BRITISH AND OTHER COMMONWEALTH FORCES.**—The regulations permit the inclusion of service in British or other Commonwealth forces for the purpose of calculating entitlement to rehabilitation leave on discharge, provided the entire service is uninterrupted. In this connection, two instances were noted where officers who had transferred from the British to the Canadian Forces were released with slightly more than ten years service in the latter and, under the regulations, each became entitled to rehabilitation leave (based on 37 years combined service) of $7\frac{1}{2}$ months valued at approximately \$5,000. On questioning this, we were informed that the Services have proposed that in any such case in the future the period of rehabilitation leave, on which entitlement is based, should be reduced by the period of termination leave granted on completion of the previous service.
2. **RELEASE FROM SERVICE THROUGH PURCHASE.**—National Defence regulations prescribe the conditions under which "other ranks" may obtain their release from service by purchase, the purchase money so received being regarded as partly compensating the Crown for its costs in enrolling and training personnel, and then releasing them within short periods of time. In the audit it has been observed that while the Air Force and the Navy apply the purchase regulation and, in fact, recovered over \$100,000 in the last three years, the Army suspended its application in 1950, and has since allowed personnel to be released "on request" without payment of purchase money. Inasmuch as the reasons given for requesting release are in many instances the same in all three Services (for example, "to return to school" and "to accept civilian employment") it is not clear why the Army policy varies from that of the other two Services. We were informed that the Army's practice is currently under review.
3. **REMOVAL EXPENSES—MOBILE HOMES.**—The regulations relating to the shipment of furniture and effects of servicemen were drafted some years ago when the usual method of shipping was by rail or road van. Since then, mobile homes have come into common use and the movement of furniture and effects in these homes is being regulated by supplementary service orders which provide that when a serviceman owning such a home is transferred from one unit to another he may have his home and contents hauled by a commercial towing firm at a cost not exceeding that which would be incurred were the contents moved in the normal manner by rail or road van, whichever may be the more economical. A test-examination of accounts during the year disclosed a number of instances where, through the submission of fraudulent receipts and the concealing of inadmissible costs, servicemen had been substantially overpaid, principally because of ineffective procedures used in verifying the net weight of the contents, haulage rates, etc. Although, as a result of the disclosures, new instructions are being issued to deal with the situation, it would seem appropriate that the regulations also be amended to include directions specifically dealing with the movement of mobile homes and their contents.

4. **REHABILITATION LEAVE—MISCONDUCT AND INEFFICIENCY RELEASES.**—The regulations provide for rehabilitation leave to personnel on release on the basis of thirty days for each completed five years of continuous service and seven days for each completed year of continuous service under five years. These benefits, however, may not be granted if the reason for the release is misconduct, inefficiency or voluntary. In the audit it was noted that members released from the services, under the regulations governing compulsory retirement to promote economy and efficiency, for reasons such as “not advantageously employable in present rank”, and “considered unsuitable for reasons other than misconduct, etc.”, who are subsequently determined by the Service Pension Board for superannuation purposes as being released for “misconduct” or “inefficiency”, have been granted normal rehabilitation leave allowances. In the opinion of the Audit Office, the reason for release as determined by the Service Pension Board on which pension benefits are based should also be used to determine entitlement or otherwise to rehabilitation leave.

5. **LEASE TERMINATION PAYMENTS.**—Comments regarding regulations governing the reimbursement of servicemen for lease termination payments were made in the 1960 Report (paragraph 56) where it was noted that such outlays were being made up to a maximum of three months' rent. After considering the matter at some length and having in mind that approximately \$500,000 was being spent annually by the Department, as well as noting the use by the Royal Canadian Mounted Police of a lease form providing for only a 30-day termination clause, the Standing Committee on Public Accounts recommended in its Fifth Report 1961 (paragraph 52) that the maximum period be reduced in future to the equivalent of one month's rent.

After considering the recommendations of the Public Accounts Committee an amendment was made to the regulations during the year which, while providing for discretionary powers to be exercised by administrative officers in dealing with individual cases, did not, however, reduce the maximum period from three months to one. The general practice has continued to be to make reimbursement on the basis of the permissible maximum of three months' rent, and the outlay for lease termination payments during the fiscal year 1962-63 amounted to \$670,000.

6. **MEDICAL EXAMINATION OF MILITIA RECRUITS FOR THE NATIONAL SURVIVAL TRAINING PROGRAM.**—During the period from November 1961 to May 1962 the Army undertook a special militia training program which involved recruiting some 90,000 men in four separate courses of six weeks duration each. Medical examinations of recruits were required on enrolment and also on completion of each course. To carry out the exceptionally large number of examinations quickly, civilian medical practitioners were employed either (a) at a rate of \$18 per half day or (b) on a basis of \$5 per enrolment examination and \$2 per releasing examination, in accordance with existing regulations.

It was noted that in some instances, where the second of these methods of remuneration was used, the doctors had been paid fees averaging \$170 a day, in total, including amounts as high as \$300 to \$400 for specific days. After investigating these apparently excessive amounts, the Department concluded that present regulations regarding medical fees, while satisfactory under normal conditions, are not satisfactory under circumstances similar to those encountered under the special militia training program, and decided that special financial arrangements should be made at the outset to deal with the medical examination of large numbers of personnel within a short period.

7. **EXCESSIVE PAYMENT OF FOREIGN SERVICE ALLOWANCES.**—Regulations applicable to the Armed Forces provide that an officer going on a training course of less than six months

duration is not entitled to move his family at government expense nor is he entitled to foreign service married allowance. In the audit a case came to attention where an officer was posted on a five months' training course to Norfolk, Virginia, and, for the reason that immediately following the course he was expected to be posted to Washington, D.C., he was allowed to move his family to the latter city at the commencement of the course. To regularize payment of moving costs and foreign service allowances, the original order posting him to Norfolk was amended retroactively to provide for a posting to Washington for three years and transfer from there to Norfolk, on temporary duty, for the duration of the training course. This entitled the officer to foreign service married allowances, applicable to Washington, during the five months' period of the training course. The financial result of this change was that the cost to the Crown was increased by some \$2,400 over the cost which would have been incurred in the normal way had the dependents remained in Canada until the officer had completed the course. We were informed by the Department that it was felt to be in the interest of the Service that the officer, during the period of the course, was able to be with his family on weekends.

8. CLOTHING CREDIT ALLOWANCE.—Under the regulations servicemen are entitled to clothing allowances of \$7 monthly to enable them to obtain the necessary military clothing required to "keep up" their kit while in the service. The benefits cease on date of release. The Department was asked to comment on the fact that servicemen have entitlement to these allowances during periods of rehabilitation leave, when presumably they are not on duty and therefore not required to replace worn out or lost kit. While the amounts of individual allowances credited to the servicemen during their rehabilitation leave period are normally not large, the aggregate is substantial (about \$60,000 annually) because of the number of personnel released each year. It is also noted that the Royal Canadian Mounted Police regulations do not extend entitlement to such clothing allowances after the commencement of rehabilitation leave. We were informed that the matter is currently under review by the Department.

65. *Educational costs incurred by the Department of National Defence.* In the 1962 Report (paragraph 75) comments were made regarding costs incurred by the Department of National Defence, under Executive authority, for the education of children of servicemen and entitled civilians residing in publicly-owned quarters. It was mentioned that, although the educational costs for each fiscal year are not reflected as such in the Public Accounts, the Department prepares statements on a memorandum basis for calendar years. The statement for the calendar year 1962 shows a total expenditure of \$16,365,000, offset by provincial grants received to a total of \$2,811,000, or a net expenditure of \$13,554,000. The expenditure total includes \$1,276,000 of outlays for new construction but does not include the cost of transportation by Service vehicles, furniture and equipment provided from Service stocks and maintenance supplies and services provided from Service resources, nor any portion of the cost of headquarters administration.

It was noted last year that the over-all pupil-teacher ratio in the departmental elementary schools was about 22 to 1—well below the average ratio for such schools in Canada generally—and the comment was made that the Department had undertaken to make enquiries into the pupil-teacher ratios at schools where the ratio was less than 25 to 1. A test examination of the pupil-teacher ratios for the 1963 fiscal year indicated that there had been only slight improvement during the year in this regard.

Audit examinations at selected departmental schools in Ontario indicated that there had been unsatisfactory control over the computation of grants recoverable from the provincial Department of Education and in some cases claims had not been made in respect of outlays which were eligible for grants. It was also observed that, in certain cases, expenditures for such items as transportation and textbooks exceeded amounts considered by the Department of Education as adequate. It was suggested to the Department of National Defence that the matter be reviewed in order to ensure that all grants to which it is entitled are recovered and to establish a means whereby claims for grants may be adequately controlled to avoid losses in the future. We have been informed that such a review is currently taking place.

Our audit also disclosed that dependent children of servicemen stationed at the R.C.A.F. Station, Bagotville, Quebec, and living in nearby communities, attend departmental schools located on the station as the local governments do not provide educational facilities for the tuition of the children although the servicemen pay taxes, and they and their families constitute significant elements of the communities. In consequence, the Department is absorbing education and transportation costs for an estimated 192 pupils living "off base", and this situation was drawn to the attention of departmental officers. It was noted after completion of the audit that a submission to Treasury Board in August 1963 for authority to enlarge the station schools by six additional classrooms to provide accommodation for these dependent children living "off base" was not approved pending further discussions with the provincial authorities with a view to obtaining their participation in providing and meeting the cost of the six classrooms required.

66. *Unauthorized use of Crown-owned vehicles.* Reference was made in last year's Report (paragraph 82) to cases where accidents which had been costly to the Crown had occurred during the unauthorized use of National Defence vehicles, and an example was given where a payment of \$14,500 had been made to a woman who suffered injuries when struck by a departmental vehicle that had been used without authority in England in 1958. The driver of the vehicle had been reprimanded and undertook to reimburse the Crown \$250, being a sum equivalent to the maximum recovery permissible under the regulations applicable when vehicles are driven, with due authority, on official business. It was mentioned that the Treasury Board had urged all departments and agencies to tighten up procedures in view of the increasing number of accidents to vehicles being driven by employees while not on duty. We expressed the view that more severe penalties assessed against offenders would serve as a more effective deterrent to the unauthorized use of vehicles.

The Department of National Defence considered the matter at length following our drawing the above-mentioned case to its attention. A departmental memorandum in August 1963 reporting on the result of this consideration put forward the view that since payments in respect of claims by third parties are made on an ex gratia basis in cases where accidents occur during the unauthorized use of departmental vehicles, regulations for recovery in such cases would not be justified, it being stated that "in view

of the extremely limited applications for recovery by the Crown it does appear that there would be difficulty in justifying a departure from the common law position that the person who makes an *ex gratia* payment where there is no legal liability on him to do so gains no right of action for recovery from the person whose actions gave rise to the claim". The position of the Department of National Defence therefore remains that while the National Defence Act provides for disciplinary action in such cases, there is no provision for all or any part of expenditure by the Crown to be recovered from servicemen involved, except on a voluntary basis.

During the year under review three instances of accidents involving Crown-owned vehicles driven by employees of the Department of Transport, while not acting within the scope of their duties, came to attention. In each case the Treasury Board directed that the employee concerned reimburse the Crown to the same extent as is provided by the Claims Regulations in a case where an employee is considered as having been on duty at the time of the accident and to have been negligent to other than a minor extent, the result being that there were assessments of one-third in two cases and one-fifth in the third, of the cost to the Crown. When giving its ruling in the third case the Treasury Board agreed to deal with it on the same basis as in the two earlier cases, but it expressed deep concern in the matter and directed the Department that in like cases in the future full recovery is to be made from the employees involved.

In the Audit Office view further consideration should be given to the matter to the end that there may be uniformity in the penalties imposed in like circumstances on all persons using Crown-owned vehicles without authority.

67. *Assistance to provinces by the Armed Forces in civil emergencies.* Section 35 of the National Defence Act provides for the employment of the Armed Forces when the Governor in Council has declared that a national disaster exists. Although the Act makes no provision for the use of the Forces in emergencies not thus declared national disasters, the Department of National Defence, on a number of occasions over the years, has rendered assistance to provincial authorities in circumstances not rated as national disasters. It is the general policy in such cases to grant assistance upon written request by the Premier of a province, or by any member of his cabinet authorized by him for this purpose, with the province entering into a formal agreement to reimburse the Government of Canada for all expenses to be incurred (except Regular Force pay and allowances) and to release the Crown from liability for any loss or damage that might arise out of the rendering of assistance.

On four occasions in the summer of 1961 assistance was given to one province in fighting forest fires. In three of these instances provincial ministers signed agreements but in the fourth, contrary to the established practice, an agreement was not executed. In the course of these fire-fighting operations the Department incurred recoverable expenses in the sum of \$410,000, including a charge of \$59,000 for the use of a helicopter which was, in fact, lost in the course of one of the operations. The claim was not submitted to the province by the Department until January 1963 and recovery has not yet been effected from the province.

In the course of our inquiry into this situation it was also noted that billings for smaller amounts in the case of two other provinces, relating to similar assistance in earlier years, had not yet been paid.

68. *Pension awards effective at early age.* For some years it has been observed that servicemen are being retired with immediate annuities at early ages—in some cases under 30. In such cases the amounts of the annuities are small due to the short periods of service, but the potential cost is substantial because of the long expectancy of life. In the year under review, 201 servicemen aged 40 and under were retired with immediate annuities.

The Public Service Superannuation Act provides for deferred annuities payable at age 60 where persons retire prior to the specified minimum retirement age—except in cases of disability, when immediate pensions are awarded. The Department has been conducting a general review of benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act.

69. *Discretionary awards of Service pensions.* From the examination of the relative files it is apparent that, in determining pension awards, every possible consideration is given to the welfare of the individual serviceman and it is sometimes questionable whether a reasonable balance is struck between fairness to servicemen on the one hand and economy of public funds on the other. The following paragraphs illustrate the situation.

Two servicemen who had requested voluntary release before having qualified for pensions (in which event only refunds of contributions would have been payable) were refused. However, when the minimum period of service required to qualify for annuities was reached the men were retired compulsorily. In one of these instances, where contributions had amounted to \$1,777, the capital value of the annuity awarded was \$29,900; and in the other, where contributions had amounted to \$2,320, the capital value was \$26,900.

In four instances where servicemen were awarded pensions, having been retired compulsorily as “medically unfit”, information on file indicated that this reason was of secondary importance to others which, had they been assigned officially, would have resulted in substantially reduced annuities, with total capital values lower by more than \$27,000.

Two instances were observed where servicemen with essentially similar rank, service and military records were retired with materially different benefits. In one of these instances the serviceman, aged 40, was unable to resolve his domestic and financial problems and was considered by his unit to be unemployable. As no improvement resulted after repeated warnings, his discharge for misconduct was recommended, with pension benefits having a capital value of \$35,000. However, he was actually released “to promote economy and efficiency” on the basis of a decision by the Service Pension Board and this decision established the man’s entitlement to an immediate annuity with a capital value of \$53,700. In the other case, the serviceman, aged 43, regarded as an

"administrative nuisance" because of his inability to control his personal finances, was awarded only a return of contributions amounting to \$4,111.

Under section 10(9)(c) of the Canadian Forces Superannuation Act "a female contributor who resigns or is compulsorily retired from the forces by reason of her marriage shall be deemed to have retired voluntarily from the forces", and such a contributor is then entitled to a return of contributions only. A case was noted where an airwoman with ten years' service was released in January 1962, the reason for pension purposes being finally determined as "to promote economy and efficiency" with the result that she became entitled to an immediate annuity. The original reason for the release had been determined by the Service Pension Board as "misconduct", in which case a reduced deferred annuity would have been payable—and this had the concurrence of the Treasury Board. However, the Service did not agree and made representations for a more generous annuity, the Service Pension Board finally deciding that the reason for release was "to promote economy and efficiency", as mentioned above. The marital status of the airwoman changed when she married during the period of rehabilitation leave, yet this fact was not recognized in determining her final benefits, the Department taking the position that the reason for release crystallized on the last day of service prior to rehabilitation leave. Consequently, instead of a return of contributions of \$1,950, she received an immediate annuity with a capital value of \$12,015.

70. *Overlapping of pension benefits.* Two members of the Royal Canadian Mounted Police retired on pension in 1952 and were engaged in the Forces on short-service commissions. They continued to draw their pensions of \$1,584 and \$1,347 per annum, respectively, in addition to their Service pay and allowances. After some nine years of temporary service they were granted permanent commissions in the Forces whereupon they became contributors under the Canadian Forces Superannuation Act. They then surrendered their Mounted Police pensions, and elected to count the years of service on which these pensions were based (some 20 years in each case) towards their pensions from the Forces on eventual retirement. After one further year of military service, both officers were retired on full pensions of \$4,127 and \$4,900, respectively, based on their combined service in the Mounted Police and the Forces (35 years in one case and 32 years in the other). However, they were allowed to retain the annuities which had been paid to them under the Royal Canadian Mounted Police Superannuation Act during their nine years of temporary service, amounting to \$15,092 and \$12,048 respectively. Thus they will eventually have received two pension benefits for the same period of service.

We have been informed that, in the opinion of the legal officers of the Department, the action taken conforms to the provisions of the Canadian Forces Superannuation Act. If this is so, we are of the opinion that consideration should be given to amending the Act.

71. *Unemployment Assistance.* Under the Unemployment Assistance Act, 1956, c. 26, the federal government contributes to the Provinces and Territories 50% of the cost of providing financial assistance to persons unemployed and in need.

In paragraph 84 of last year's Report the Audit Office opinion was repeated that the Unemployment Assistance Act administered by the Department of National Health and Welfare includes ambiguities which have resulted in varying interpretations, and that the text merits further consideration. Our examinations during the year under review confirmed our opinion. Possible changes in the legislation, and the use of regulations, mentioned in last year's Report as being under study by the Department, are still being actively considered.

OVERPAYMENTS TO PROVINCE OF QUEBEC.—In Quebec the final adjustments in respect of overpayments referred to in our 1962 Report, which related to the period from July 1, 1958 to December 31, 1961, are still under consideration. The Department has agreed to accept Quebec welfare agencies as agents of the Province, and their records of persons assisted as the Province's records within the meaning of section 6 of the Agreement.

The arrangement first reported in 1961 whereby the Audit Services Branch of the Office of the Comptroller of the Treasury has been participating with the Provincial Auditor of Quebec in a joint audit of the accounts received by the Province from homes for special care and welfare agencies continues. The practice followed in other provinces whereby the provincial auditor's examination of claims and certification in accordance with the agreement precede separate examinations made on behalf of the federal government will, we understand, be followed now that the joint audit has been completed to December 31, 1961.

WORK FOR RELIEF.—Although our examinations have not revealed further instances where recipients had been required to work in return for assistance given them, a number of municipalities continue to advocate this. The provinces have not acceded to these representations although Prince Edward Island provides in its Provincial Home for the Aged Act that inmates of the Home who are capable of working may be required to work in and about the Home.

SUPPLEMENTAL ALLOWANCES IN BRITISH COLUMBIA.—Reference was made in our 1961 and 1962 Reports to the Department having agreed that supplemental allowances normally excluded under section 4(2) of the Act could be regarded as additional relief payments in accordance with section 4(3)(b) of the Act and section 8 of the Agreement when the amounts are based on individual budgetary assessments of need in which basic expenditures as well as income are considered. In those Reports we expressed doubt about the way in which British Columbia had made such budgetary assessments of need and in the 1962 Report we mentioned that overpayments estimated at \$111,400 had been recovered. However, during the year under review the Province objected to this estimate and it was agreed that a new calculation of the overpayments be made. At the year-end the recalculation of the overpayments had not been completed.

We also drew attention last year to the use in British Columbia of two different scales of maximum basic assistance, the more generous one being for those eligible for supplemental allowances. This discriminates against applicants not entitled to supplemental allowances, that is those under 65 and those over 65 who have not been residents

of the Province for three years. We expressed doubt as to the propriety of maintaining the three-year residence requirement and suggested that uniform standards of assistance should be applied if supplemental allowances are to be considered shareable under the Unemployment Assistance Act. The situation remains unchanged.

INCONSISTENCIES IN COMFORTS ALLOWANCE.—In an earlier Report we expressed the opinion that sections 4(2)(b) and 4(3)(b) of the Unemployment Assistance Act, taken together, appear to require that the full amount of a recipient's income be offset against the calculated cost of meeting his needs to arrive at the amount of unemployment assistance that is shareable under the Act. It is an established principle that unemployment assistance is to be based on need and in the case of a recipient with some income, is only intended to supply the additional amount required so that his income plus unemployment assistance will enable him to meet his needs.

The use of a portion of a recipient's income to meet his need for comforts has been accepted because this is, in effect, the same as providing a like amount for comforts in the unemployment assistance granted. However, our examinations have disclosed that in homes for special care in some provinces the amount of the comforts allowances to inmates seemed to depend not on the inmates' need but rather on whether or not they had some personal income. Thus, if an inmate were in receipt of Old Age Assistance or Old Age Security payments, he would be allowed \$15 per month, whereas if he were dependent entirely on unemployment assistance his comforts allowance would only be \$5 per month. The effect of this arbitrary practice is not only to discriminate on the basis of the economic status of the recipient but in some cases it leads to the building up of individual trust account balances from the unspent proceeds of these allowances which may be used to cover expenses excluded from unemployment assistance costs by section 4(2)(d) of the Act. An additional effect, of course, is to increase the federal government's share of the cost of the Unemployment Assistance program.

MOTHERS' ALLOWANCES.—The Unemployment Assistance Act and the statutory agreement form provide for the exclusion of recipients of mothers' allowances (provincial allowances designed to assist mothers whose families have been deprived of the wage earner). In last year's Report we reviewed the mergers of mothers' allowances with general welfare assistance and the provision in the agreement for compensating deductions to be made when determining unemployment assistance costs. The artificial nature of some of these mergers was also drawn to attention.

In the current year the Province of Ontario established a new class of assistance called Assistance to Dependent Fathers comprising all the former mothers' allowance cases involving dependent fathers. These cases were then transferred from the mothers' allowance program to general welfare assistance, the Province thus being able to recover a substantial portion of the cost from the federal government under the Unemployment Assistance Act. Although the merger of dependent fathers' cases with the general social assistance caseload has involved essentially only a change in name, the Department of National Health and Welfare considers the exclusion in the Act and Agreement applies only to assistance payments called "mothers' allowances" and has therefore been allowing

the dependent fathers' cases. It is interesting to note that in over half of these cases, the assistance paid is only in respect of their wives and children. Among this group are fathers who are inmates of mental hospitals and tuberculosis sanatoria and who are thereby excluded from receipt of unemployment assistance by virtue of section 4(2)(a) of the Unemployment Assistance Act.

EDUCATIONAL COSTS.—Examinations in Alberta and Saskatchewan reveal that claims sometimes include the cost of tuition, books and living allowances for persons training as teachers, nurses, farmers and barbers, together with allowances for their dependents. In addition, regulations under Ontario's General Welfare Assistance Act provide for rehabilitation services, including vocational training the cost of which, it is understood, has been included in the Province's Unemployment Assistance claims. A similar problem also arises in the Province of Quebec in connection with assistance to children aged 18 to 21 who are undertaking studies. It is doubtful whether costs such as the above are within the scope of the Unemployment Assistance Act and Agreement.

INTERPRETATION OF "UNEMPLOYED".—In our 1961 Report we noted that the word "unemployed" as used in the Act was considered to include such persons as mental defectives and paraplegics when, even in its broadest sense, the term would normally be expected to include only persons who have been, are or will be capable of employment.

A related question is to what extent may an applicant be employed and still be considered unemployed for purposes of the Act. By and large, assistance to persons employed full time is excluded even though their earnings are insufficient to meet their needs. On the other hand a person who works only casually is considered to be unemployed and may be assisted under the Act if his income is insufficient to meet his needs.

However, problems arise in determining whether persons engaged in certain types of employment, for example employees who regularly work half days, taxi drivers, housekeepers, woodsmen and own account workers, are unemployed. In addition, there is a risk that unemployment assistance to such persons may be used to subsidize low wages or to tide over the proprietor of a new business until the enterprise becomes profitable. In our opinion a clarification of the term 'unemployed', possibly by definition in the Act, is highly desirable.

STRENGTHENING ADMINISTRATIVE CONTROL.—Last year we referred to the Department's difficulties in the administration of the Act and suggested that it assemble its own internal audit group to take responsibility for the verification of unemployment assistance costs claimed by the provinces. This suggestion has been accepted and the necessary additional staff is being recruited. The Department plans to co-ordinate the new staff with its examiners of categorical allowances to obtain a comprehensive continuous review of provincial welfare administration as it affects the federal-provincial agreements in the welfare field. This strengthening of the Department's review of claims and control procedures should reduce its difficulties in administering this complex program.

In paragraph 74 of our 1961 Report it was suggested that because of the relationship between the Unemployment Assistance Act and other federal social assistance programs,

consideration should be given to the need for over-all co-ordination of all programs involving assistance to individuals to avoid overlapping and duplication and to achieve greater equity in the treatment of individuals as well as to reduce the cost of administration. In our opinion steps along these lines should be taken without delay in view of the increasing size and complexity of welfare administration.

72. *Hospital construction grants.* In paragraph 85 of last year's Report we drew attention to the absence of parliamentary control over hospital construction grant commitments beyond the current year, and to the substantial amount of grants awaiting payment at the year-end.

In view of the fact that the hospital construction program is planned on a five-year basis, it seems reasonable that for effective control Parliament place a limit on the over-all program it is prepared to be committed to, as well as provide the funds required annually for the execution of the program.

Of the \$3.4 million of claims outstanding at March 31, 1963, \$2.1 million were submitted by the Province of Quebec, for completed construction in respect of approved projects, in excess of its share of the current year's grant, and such claims therefore could not have been paid even if funds had been available. The remaining \$1.3 million of claims were from seven provinces for current year's commitments which should have been paid but could not because there were insufficient funds available. Although the annual appropriation is intended to provide for all commitments coming in course of payment during the year, 1962-63 was the third consecutive year in which insufficient funds were available to meet the federal government's obligations under the program.

73. *Indian hospitals and hospital insurance.* Section 5 of the Hospital Insurance and Diagnostic Services Act, 1957, c. 28, requires every province to agree to make insured services available to all residents of the province upon uniform terms and conditions. When hospital insurance was discussed by the 1956-57 Special Committee on Estimates, and later when the relative Bill was debated in Parliament, it was made clear this would oblige the provinces to provide insured services for Indian as well as other residents.

Indian and Northern Health Services of the Department of National Health and Welfare has been providing these services to Indians and recently the volume of general treatment has increased as hospital facilities previously used for tuberculous Indians became available for general treatment.

The Hospital Insurance Agreement with the Province of British Columbia included the three Indian hospitals in the Province, in recognition of their role in providing general hospital care to Indians. The Province, however, has insisted that the Agreement is subject to an earlier understanding that the Province will only pay for care in Indian hospitals if no general public hospital accommodation is available. Thus, the Province has refused to pay Miller Bay Indian Hospital for insured services to insured residents when accounts are not accompanied by a certificate from the nearby Prince Rupert General Hospital that they had no accommodation available. While the Province may wish to promote the integration of Indians and the general population, financial con-

siderations appear to be paramount. Under the Agreement the Province pays practically the full operating costs of the Prince Rupert General Hospital whether its beds are used or not, but for hospitalization in the Indian hospital the Province pays only for the beds used.

In the calendar year 1962 the Prince Rupert General Hospital's average occupancy was 95% of its rated capacity of 88 beds, while the Miller Bay Indian Hospital's average occupancy was only 60% of its rated capacity of 70 beds assigned to general care. The occupancy rates appear to reflect the Province's policy of using this Indian hospital to provide standby facilities for the general hospital.

The 1962-63 Public Accounts show the operating costs of the Miller Bay Indian Hospital at \$733,000 and about half of this amount could be regarded as related to general care. Revenue received from the Province's hospital insurance plan, as an offset to the costs related to general care, amounted to only \$14,000 or about 4% of the federal expenditure. The failure to recover a larger share of costs at the Miller Bay Indian Hospital is explained by the fact that (a) the Province will not pay for insured patients at the Indian Hospital unless accommodation is not available in the general hospital, (b) per diem rates set by the Province are below actual cost (and also below the corresponding rates in the Prince Rupert General Hospital), and (c) the Province deems some of the care given insured patients unnecessary, and will not pay for it. Thus, notwithstanding the fact that general care includes uninsured chronic and custodial care, it seems evident that Canada is bearing costs it was intended that the Province assume under the Hospital Insurance and Diagnostic Services Act.

74. *Improper authorization of use of a Government-owned automobile.* An employee of the Department of National Health and Welfare took a course at a university in a city some 150 miles away from his home. He was granted "educational leave" pursuant to section 73 of the Civil Service Regulations and the Treasury Board authorized payment of a non-accountable allowance equal to full pay, tuition fees of \$250, and actual return transportation expenses (which the Department had advised would be about \$20). In addition, a subsistence allowance at the rate of \$175 a month was approved, retroactively, after the course terminated.

While on this leave, the employee was permitted to continue to use the Crown-owned automobile which had been provided for the performance of his duties. The automobile was used by him to travel between the university and his lodgings and to return home on weekends, with all running expenses being charged to the government, by means of credit cards, for a total of approximately 4,500 miles.

In view of the fact that (a) the employee was permitted to use the vehicle and (b) it was not made clear to him that he was on leave without pay rather than on official duty, the Department has advised us that they will not take action to recover from the employee the costs resulting from the use of the vehicle (see also paragraph 93, "educational program costs"). As a result of our drawing this matter to the attention of the Department, we understand that administrative changes are being made to prevent a recurrence.

75. *Reporting of remissions.* In paragraph 93 of last year's Report reference was made to the requirements of the Financial Administration Act with regard to the reporting of remissions. We expressed the opinion that section 22 of the Act in calling for "a statement of each remission" contemplates the inclusion of a comment giving the particulars with respect to each remission—as was being done in the case of remissions to charitable, educational or other non-profit organizations. As an illustration of the inadequacy of the method of listing remissions, reference was made last year in paragraph 94 to the sales tax on oleomargarine which, by the use of the remission process, was being rendered inoperative in the Province of Newfoundland without this being indicated in the listing of remissions included in the Public Accounts.

The Department of National Revenue took note of this observation in last year's Report, and remissions granted in 1962-63 are being reported in greater detail than in previous years, with explanations enabling the reader to determine the manner in which the remission prerogative was exercised.

76. *Remission of customs duty surcharges.* With the object of increasing customs duties on various classes of imports by 5%, 10% or 15% ad valorem, the Surcharge on Imports Order was established by Order in Council P.C. 1962-902 of June 24, 1962. This Order withdrew, with respect to many tariff items, all rates of customs duties more favourable than those of the General Tariff and at the same time, by relying on section 22 of the Financial Administration Act, it remitted all customs duties to the extent necessary to ensure that amounts of duty collected were not increased by more than 5%, 10% or 15% ad valorem as the case might be. Subsequently, as various tariff items were exempted from the surcharge, this was accomplished by further remissions of duties to the extent necessary.

In applying the terms of the Order, the Department of National Revenue did not require customs officers to calculate the full duty payable and record the amount remitted in each case, nor did it require that the amount of the surcharge be calculated separately. From the practical point of view, the application of the surcharge was thus accomplished with a minimum of administrative cost. However, as no record was kept of the tariff changes provided for by section 1 of the Surcharge on Imports Order, of the remissions provided for by section 2 of the Order or of the surcharge as a separate amount on each entry, information is not available as to the total of the additional duties payable as a result of section 1 of the Order, as to the amount of the duties remitted by section 2 or as to the exact amount of the surcharge collected.

77. *Remissions of sales tax in excess of compromise offers.* Included in the remissions reported in the Public Accounts for 1962-63 were two cases where exceptional circumstances were present.

One of these cases involved a licensee operating as a manufacturer of restaurant booths, tables, etc., as a jobber selling restaurant and hotel supplies and as a general contractor handling renovating jobs. In the ten year period from 1948 to 1958 audits on six occasions by five different excise tax auditors resulted in additional assessments totalling only \$2,593. On the last of these occasions, in July 1958, the licensee was

informed that his records were inadequate and that proper cost records must be maintained. An audit of the transactions of the subsequent three year period resulted in an additional assessment of \$36,823, and the excise tax auditor again reported the records to be inadequate. The amount of the assessment was disputed and an alternative figure of \$8,108 was put forward by the licensee. An attempt was made to check this figure but, in the meantime, all the records had been destroyed by fire. The excise tax auditor nevertheless re-examined the assessment and revised it downward to \$18,088. The licensee offered a compromise settlement of \$10,000 which was accepted and the Governor in Council remitted the balance of \$8,088 plus penalty of \$3,545. In the meantime a sales tax audit for the year ended April 30, 1962 resulted in a further assessment of \$7,330, with the auditor once more reporting that the records were inadequate. The licensee again disputed the assessment and offered \$4,500 in full settlement. Again, this offer was accepted, and the Governor in Council, in June 1963, remitted the balance of \$2,830 plus penalty of \$926. This remission will be reported in the Public Accounts for 1963-64.

In the second of the two cases referred to above, excise tax auditors examined the records of the licensee, a beverage manufacturer, on ten occasions during the period from 1941 to 1959 and additional assessments totalling only \$678 resulted. Two auditors alternated in the first nine of these examinations and a third auditor made the tenth. In 1962 a fourth auditor made an examination of the records for the period from April 1959 to April 1962 which resulted in an additional assessment of \$15,216 for this period. Because of this large additional assessment the records for the period from March 1955 to March 1959 were re-examined and a further assessment of \$23,089 for this period resulted (there was no re-examination of the records for the period August 1941 to February 1955). The licensee tendered a payment of \$15,000 as a compromise settlement of the \$38,305 total of these assessments and the Governor in Council remitted the balance of the tax of \$23,305 plus penalties of \$9,560. In the course of the investigation of the case the licensee took an affidavit to the effect that he had made payments to each of the first three excise tax auditors personally. Prior to the sales tax audit which resulted in the first of the large additional assessments, one of the auditors previously involved had resigned and another had retired. The third was suspended and subsequently dismissed. Charges were laid against the retired auditor but he died before the case could be heard.

78. *Payment made for houses the cost of which had previously been provided for through loans still outstanding.* An Eskimo Loan Fund was established by Appropriation Act No. 3, 1953 for the purpose of making loans to individual Eskimos or groups of Eskimos under conditions prescribed by the Treasury Board. By March 31, 1963 outstanding loans amounted to \$232,317 of which \$52,500 had been extended to a group of 15 Eskimos at Frobisher Bay, N.W.T.

The circumstances in the case of the Frobisher Bay Eskimo group are unusual. Early in 1962 this group incorporated as a co-operative for the express purpose of acquiring housing. Agreement was reached between the co-operative and the Department of Northern Affairs and National Resources that: (a) the Department would invite tenders for 15 prefabricated houses and place a contract after the Eskimos had signified approval; (b) payment would be made to the contractor by the co-operative for the total price, less

\$15,000 for which the Department agreed to assume responsibility; and (c) in order that the co-operative would have sufficient funds to pay the contractor and to meet shipping costs, the Department would make a loan of \$3,500 from the Eskimo Loan Fund to each of the 15 Eskimos who, in turn, would endorse his cheque for deposit to the credit of the co-operative.

As agreed, the cheques, collectively amounting to \$52,500, were issued to the Eskimos from the Loan Fund and endorsed by them to the co-operative. At this point the Department sought and obtained Treasury Board approval to charge the full cost of the houses to a departmental appropriation. In February 1963, the Department's Welfare and Industrial Division appropriation for "Construction or Acquisition of Buildings, Works, Land and Equipment" (Vote 95) was charged with a payment of \$69,705, the f.o.b. Montreal cost of the houses. The loans were not, however, at the same time recalled by the Department.

The loans had not been repaid as at March 31, 1963 and interest charges had raised the total outstanding to \$53,540. Subsequent to the year-end, authority was granted to waive interest on each of the \$3,500 loans until such time as each Eskimo occupied his house (it was estimated that the last of the 15 houses would be occupied by November 1, 1963). Less than \$800 had been repaid on these loans to September 15, 1963.

79. *Payment of maintenance expenses of Civil Service Recreational Association Centre.* In last year's Report (paragraph 99) attention was drawn to financial assistance of approximately \$25,000 extended in the form of maintenance services rendered by the Department of Public Works to the recreational centre operated by the Civil Service Recreational Association, a privately managed staff organization at Ottawa, which provides athletic and other recreational facilities for its membership. The assistance was given with the concurrence of the Treasury Board, although neither the text of the appropriation involved nor the related Details of Services contained any reference to the assistance. It was pointed out last year that this was contrary to the long-standing policy that grants or other forms of financial assistance to non-governmental organizations are made only from parliamentary appropriations specifically provided or clearly intended for such purpose.

During the year under review the Public Works appropriation for "Maintenance and Operation of Public Buildings and Grounds" (Vote 75) was charged with costs of approximately \$31,600 in respect of lighting, heating, water, and repairs and upkeep in connection with the Centre, while the appropriation for "Improvements Generally" (Vote 70) was used to meet the cost of \$1,345 incurred for grounds maintenance. In neither instance did the text of the appropriation nor the associated Details of Services refer to the assistance to be thus provided.

80. *Failure to recover, or seek recovery of, cost of remedial work.* The construction of a public building at North Bay, Ontario, to accommodate personnel of a number of departments was substantially completed in April 1957. Because of certain known deficiencies in the work, the final payment to the contractor was not made until December

1957 and his security deposit was released in the following month. In the meantime, the premises had been progressively occupied and, during the winter of 1957-58, the district representative of the Department of Public Works received many complaints from the occupying departments. In March 1958, he informed the contractor of 39 deficiencies which required correction. Of these, 34 were of a minor nature and were corrected by the contractor but, although over a period of four years he was repeatedly ordered to deal with the remaining items, he refused on the grounds that he had followed plans and specifications. On the other hand, the Department took the stand that the repairs were required because of poor workmanship or faulty materials, and the cost of the remedial work would undoubtedly have been withheld from the security deposit had it not been released prematurely.

Early in 1962, because some of the unsatisfactory conditions had created a public hazard, a contract was placed with another contractor for the correction of the outstanding deficiencies. The cost of \$40,156 was charged to the 1962-63 appropriation for "Balances required to complete any projects undertaken in previous fiscal years and for which no specific provision is made in the fiscal year 1962-63" (Public Works Vote 190).

Efforts to recover the cost of the remedial work from the original contractor have not included recourse to legal action.

81. *Failure to recover part of dredging costs.* It has long been the policy of the Department of Public Works to limit its participation in the cost of dredging access channels from private areas to main channels, to sharing the cost equally with those desiring such access, and not to accept any financial responsibility for dredging slips or berthing areas considered to be of a private nature. A departure from this policy was observed during the year when a payment of \$45,000 was made to the City of Trois-Rivieres as a charge to the Public Works appropriation for "Dredging-Maintenance and Operation of Plant and Contract and Day Labour Works" (Vote 150).

In October 1962 the Department of Transport requested the Department of Public Works to undertake dredging in the St. Maurice River in connection with the development of a municipal park and marina by the City of Trois-Rivieres. The former Department had already requested quotations for the work involved, from three dredging firms in the area. The Department of Public Works, in reply, referred to its policy in such matters and stated that it would be prepared to recommend only the sharing of the cost of dredging the access channel, which would mean a departmental outlay of about \$9,000, but that it could accept no financial responsibility for the mooring basin and berthing area associated with the municipal park. The Department also stated that it could not award a contract on the basis of the bids already obtained by the Department of Transport because section 36 of the Public Works Act required that tenders be invited by public advertisement. It suggested, therefore, that the City negotiate a contract for the dredging, with the payment by the Department being in the form of a contribution to the City.

After further representations by the Department of Transport that the Department of Public Works should make a contribution of \$45,000 to the City to cover the full cost

of dredging not only the access channel but also the mooring basin and berthing area, the Treasury Board was approached for authority to make the contribution on this basis and such authority was given in January 1963.

As well as being at variance with the policy with respect to sharing dredging costs, the propriety of the charge to Public Works Vote 150 is open to question because of the long-standing policy that financial assistance may be given to outside organizations only from parliamentary appropriations specifically provided, or clearly intended, for such assistance.

82. *Construction of ferry landing facilities for provincial government.* For a number of years it has been the general policy of the Department of Public Works to regard the landing facilities at either end of a ferry service linking an intra-provincial highway as the exclusive responsibility of the province concerned. Two departures from this policy in 1962-63 attracted attention.

In the early part of the fiscal year the Department sought Treasury Board authority to enter into a contract for major wharf improvements at Les Eboulements, Que. The Board noted that a significant part of the proposed expenditure—at least \$100,000 of the accepted tender of \$575,000—would relate to the construction of a loading facility for the ferry service operating between Iles aux Coudres and Les Eboulements, which is subsidized by the Canadian Maritime Commission. Accordingly, while the Board authorized the Department to enter into the construction contract, it was suggested that the Province of Quebec should be asked to make a capital contribution which would bear a direct relationship to the cost of the facilities being provided in connection with the ferry service. Several months later the Department informed the Board that the Province had shown a reluctance to participate financially in the provision of the improved facilities. The Board directed that in future instances of a similar nature the Department was to approach the province concerned at the outset and obtain an undertaking regarding “an appropriate financial contribution”, in order that the Board might be “in a more favourable position to assess the merits of the planned work”.

In the second case referred to above, tenders were called in 1961 for the construction of terminal facilities at Matane, Quebec, for a proposed ferry service between Matane and Godbout. Treasury Board approval of entry into a contract was initially withheld because it was felt that an exception should not be made to the general policy with regard to facilities for intra-provincial ferry operations. Eventually, however, “since some commitment had been given to the private interests, on which basis they undertook substantial commitments related to the acquisition of a vessel and the construction of the Godbout terminal”, the Board reluctantly approved proceeding with the project. They directed, however, that “the expenditure involved was definitely the limit of federal assistance to this service, and wished it to be made very clear that no operation subsidy payment would be made”. The terminal facilities were completed during the year under review at a cost of \$171,557.

Notwithstanding the Board's previous direction as to the limits of federal assistance to this service, executive authority was granted in August 1963 for entry into a three-year

agreement with the company operating the ferry, for a subsidy of \$50,000 for 1963, \$40,000 for 1964, and \$30,000 for 1965, with a recapture clause for amounts earned in excess of \$39,400 per annum.

83. *Cost of constructing additional wharf.* In 1955 the Department of Public Works constructed a wharf at Desbiens, Quebec, at a cost of \$10,828. While title to the site of the wharf had been acquired by the Department, control of the approach remained vested in the municipality, which undertook to maintain the roadway at its own expense. In 1958 the Department was requested to provide a new wharf at Desbiens, at a location approximately 1000 feet distant from the structure built in 1955, because access to the existing wharf had been closed to the public by the municipal authorities. The Department was not prepared to expropriate the approach to the existing wharf because of local feeling, nor was it prepared to build a new wharf, and matters were allowed to stand until 1961. In that year, without having sought or obtained the approval of the Treasury Board, the Department agreed to build a new wharf at the site suggested in 1958, provided it could obtain clear title to all the necessary properties, and by March 31, 1963 costs of \$11,808 had been incurred. In the meantime, efforts to sell the first wharf for its salvage value, through Crown Assets Disposal Corporation, were unsuccessful.

84. *Radar equipment acquired but not put into service.* In 1958-59, airway and airport surveillance radar systems were placed in commission at 15 Canadian airports in order to provide improved facilities for air traffic control. The individual installations required considerable construction at some airports in order to provide accommodation for the radar terminal equipment in the control towers, and related facilities.

At the Lakehead Airport, due to the nature of the terrain, it was found necessary to install the surveillance system on a height of land about 12 nautical miles from the airport and to have a communication link to relay the radar information from there to the airport control tower. In March 1959 the Department of Transport acquired a microwave radar relay system at a cost of \$182,000 to provide the necessary link between the surveillance system and the airport control tower. As space in the terminal building was not available to house all the airport radar equipment, it was decided to construct a temporary building at the remote site to accommodate some of the equipment and to provide a link to the airport control tower by radio circuit until such time as the terminal building facilities were enlarged to accommodate all the radar terminal equipment. It was regarded as impracticable to put the microwave link into service until this had been done.

At March 31, 1963, four years after acquisition of the microwave radar relay system, it was still in storage, and the preparation of working drawings and tender documents for enlarged terminal facilities had not yet reached the final stage. It would now appear that at least five years will have elapsed between the time of acquisition of the microwave system and its being put into service. Thus, equipment valued at \$182,000 and of a kind subject to rapid technological improvement will have remained in storage for five years because of failure to provide necessary equipment accommodation.

85. *Expenditure arising out of accident resulting from improper installation of air traffic control equipment.* On March 26, 1962 a Trans-Canada Air Lines airplane, while taxiing at the Montreal International Airport, came into contact with a precision approach radar reflector which had been recently installed close to the edge of the holding area beside the runway. Subsequently the airline presented a claim to the Department of Transport for costs of \$82,552 "attributable to engine ingestion of temporary P.A.R. aluminum reflector and post". Payment of the claim was authorized by the Governor in Council on an ex gratia basis, the charge being to the Transport appropriation for "Airport and Other Ground Services—Operation and Maintenance" (Vote 145).

An investigation by the Department revealed that the reflector giving rise to the accident had, with other reflectors, been installed at a distance of only 25 feet from the side of the runway instead of at the distance of 50 feet recommended by the equipment manufacturer and approved by departmental headquarters. Furthermore, the poles supporting the reflectors had been temporarily installed with their bases above the prescribed height because the surface of the ground was frozen at the time. The accident occurred because the outboard engines of the aircraft involved in the accident, which were lower than the reflectors, projected about 33 feet from the side of the runway when its wheels were on the edge of the paved area.

86. *Montreal International Airport construction costs.* In 1953 preliminary planning by the Department of Transport indicated that expenditure of about \$6 million would be required for the construction of an air terminal building and a separate "finger" building at the Montreal International Airport. The concept of a separate "finger" building was abandoned in the face of adverse criticism by prospective commercial users of the facilities, some of whom also criticized the inadequacy of space provided for their use.

In July 1954 two firms of architects were engaged to work jointly on the project and were instructed to have specifications for the new terminal building ready for tender by March 1955, considerably in advance of what would have been expected normally in connection with a project of this magnitude. The revised plans prepared by the architects differed materially from those originally contemplated and the cost of the project was estimated at \$11 million, including \$1.5 million for the "fingers" which were now to be extensions of the terminal building itself.

In order that the work could proceed with a minimum of delay, and notwithstanding the fact that final decisions had not been reached with regard to a number of important matters, it was decided that the work could be divided into a number of stages and separate contracts awarded for each stage. It was felt that this approach, rather than having a contract for the entire project placed with one contractor who would subcontract for a number of construction stages, would enable the architects to work on the detailed specifications for one stage while work was proceeding on the previous one. It was also hoped that a saving could be effected through the placing of individual contracts. The contract for the first construction stage was authorized in August 1955; and the terminal building was substantially completed and opened to the public in December 1960.

Total costs actually incurred in the construction of the terminal building and related facilities had amounted to \$30,591,000 at March 31, 1963, as follows:

Terminal building	\$22,348,000
Fingers and aeroquay	6,048,000
Furnishings, etc.	676,000
Architects' fees and expenses	1,519,000
	<hr/>
	\$30,591,000
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Reasons underlying these heavy costs, far in excess of those estimated, have been reviewed by the Department with us, the principal reasons advanced being:

- (a) the undertaking was the first of such magnitude undertaken by the Department and raised a number of problems which were either under-estimated or unforeseen in the planning stage because of the size and complexity of the project;
- (b) it was considered necessary to proceed with the various stages of the work as rapidly as possible without, in some cases, having complete plans available (a result was that prices covering much of the work had to be obtained through negotiation with the contractors already on the job, rather than through tendering);
- (c) construction took place during the period when the first major thinking was going into the planning of terminal buildings to be used by jet aircraft, and this was responsible for a great many changes in the planning as work proceeded, making advance cost estimates unrealistic; and
- (d) the architects fell behind schedule in their preparation of plans.

87. *Catering contract, Montreal International Airport.* In March 1960 the Department of Transport invited public tenders for the rental of the restaurant and other dining facilities in the new terminal building at the Montreal International Airport, on the basis of a percentage of gross revenue from sales of food and beverages. Three of the bids received were given serious consideration, two being from large, well-established concerns in the catering field. The third, which contained a slightly better offer than the other two, came from a group of Montreal citizens with varied backgrounds, including some experience in restaurant operations, who proposed to incorporate a company to operate the facilities if they were successful in obtaining the concessions.

Executive approval was given in August 1960 for entry into an agreement with this group but only on condition that it, at its own expense, furnish, equip, and decorate the cocktail lounge and bar and spend a minimum of \$350,000 as the initial cost of furnishing, equipping and decorating the several concessions. The condition was agreed to by the group.

The group thereupon formed themselves into a limited company and signed a lease indenture dated January 31, 1961. The indenture contained the condition referred to previously and in addition required that the specified amount of at least \$350,000 to be spent on furnishings, etc., was to be evidenced by certified copies of receipted vouchers

furnished to the Department within 60 days of the effective date of the lease. This requirement was not met and the Department later explained to the Audit Office that a general awareness of what had been installed made it seem unnecessary to invoke the relevant clause.

Financial statements produced by the company to the Department in May 1961, giving the financial position at the date of the lease indenture, revealed that the company was proceeding to make commitments for expenditures called for in the lease, but it was also revealed that the company was under-capitalized in that only \$150,000 equity capital had been introduced. Interim financial statements provided to the Department by the lessee as at July 31, 1961, i.e., after six months operation under the lease, revealed that:

- (a) no further equity capital had been introduced,
- (b) \$73,000 had been borrowed by the company,
- (c) there was a deficiency of working capital, and
- (d) furniture and fixtures had been largely obtained on credit.

Although partially reorganized in July 1961, the financial position of the company continued to deteriorate. Operations for the first eight months to September 30, 1961 resulted in a loss which was in excess of the paid-in equity capital. Financial statements prepared as at June 30, 1962 revealed that further losses had occurred without any additional equity capital having been introduced.

On October 1, 1961 the company ceased to make the rental payments to the Department called for by the lease indenture and these were not resumed until almost a year later. Following a general assessment of the situation in February 1962, the Department decided that a proposal made by the company for a major re-writing of the lease and a substantial reduction in the operation of the facilities was unacceptable and that the only solution to the situation was to seek a successor by direct negotiation. The Department therefore invited proposals from the two well established catering concerns whose bids had also received consideration in March 1960. One of these concerns showed interest in taking over the catering company provided that "the Department would make some adjustments both with respect to the financial crisis which had developed and the fee formula for continued operation of the restaurant". With the Department's approval the concern entered into discussions with the directors of the company holding the catering contract. However, before much progress could be made by this concern, the directors and principal shareholders of the company holding the catering contract suddenly sold out their interest in the company to a fresh group of local citizens in October 1962.

In November 1962, after current rental payments had been resumed, but without reducing the backlog of indebtedness, the new directors of the company holding the catering contract came forward with a proposal that the basis for the payment of rental in so far as food sales were concerned be substantially adjusted downward and made retroactive to February 1, 1961, the effective date of the basic lease indenture.

Notwithstanding the unsatisfactory performance of the lessee company over the two years of its operation, the Treasury Board early in 1963 approved the financial reductions sought by the new directors and the Department was authorized to amend the lease indenture retroactively on that basis. Although it is obvious that this will result in a substantial reduction of the company's unpaid indebtedness to the Department, which amounted to \$167,400 at March 31, 1963, the actual amount of the reduction has not yet been finally determined by officers of the Department.

88. *War Veterans Allowances.* In the 1962 Report (paragraph 103) attention was directed to the application of the War Veterans Allowance Act and Regulations. We reported the following anomalies: (i) that mortgages receivable and agreements for sale were not considered as personal property, thus allowing awards of allowances to many applicants who would not qualify if their assets were in another form; and (ii) that proceeds from the sale of a recipient's home were not considered to be personal property for a year after the date of sale, even when a new residence was purchased shortly after his former home was sold, thus allowing the continuation of payment of allowances in cases where the recipient was in possession of assets in excess of those permitted by the Act. We reported also that action was seldom recommended by the War Veterans Allowance Board to enforce the provisions of the Act and Regulations relating to penalties or imprisonment, or both, for making false or misleading statements or failing to disclose pertinent information which might have a bearing on the amount of an award. In this regard we pointed out that no legal action had been taken in 57 cases (there were 30 additional cases in 1962-63) referred to the Board by this Office. Our concluding comment in respect of this situation was: "unless the Act is amended to provide heavier penalties which the Board is prepared to enforce, deliberate deceptions of this type can be expected to continue".

These comments are reiterated as the unsatisfactory situation continues. In fact, there has been an increase in the number of persons and amounts affected because of an amendment (1962, c. 11) to the Civilian War Pensions and Allowances Act which provides for payment of the same allowances to certain civilians.

Another problem encountered concerns income of children where children are involved in awards. The Table of Allowances (Schedule A of the Act) sets out in column III thereof the maximum total annual incomes, including allowances, which the various classes of recipients are permitted to receive. The Board has directed that income from any source that is received by a W.V.A. recipient for or on behalf of dependent children does not constitute part of the recipient's income, and that income of children is not to be considered a factor in making awards to any recipient, other than an orphan recipient. The directive stems from an opinion to this effect given by the Director of Legal Services of the Department of Veterans Affairs based on the fact that where the spouse is recognized as the dependent (Classes 2 and 4), column III of the schedule shows the total permissive income followed by the words "total for veteran and spouse" whereas where the child is recognized as the dependent (Class 3) the amount appears without restrictive or qualifying wording; thus, for this class, it was

concluded, no income other than that of the recipient was intended to apply. However, it is the Audit Office view that, since an increased allowance for maintenance is payable because of the child, income in respect of the child (excluding income exempted by the Act) should be taken into account when determining the amount of war veterans allowance to be awarded.

Moreover, section 6 of the Act specifically exempts family allowances, additional allowances payable under the Pension Act in respect of children, mothers' allowances and provincial and municipal relief to dependent children; therefore, by implication it would appear that all other income in respect of children is intended to be assessable.

On the basis of a clarification given to the Board by the Director of Legal Services as to the distinction between money paid to a recipient because that recipient has a child (income of the recipient) and money paid to a recipient on behalf of a child (income of the child) the Board, when granting an allowance to an individual receiving unemployment assistance has on occasion exempted a portion of that income on the grounds that it represents income of his child. Similarly, instances have been noted where a portion of a workmen's compensation award to a war veterans allowance recipient with a child has been exempted because it was considered by the Board to be income of the child. The presence of dependent children is of course a factor governing the amount of an allowance given under the Unemployment Assistance Act or an award made under workmen's compensation legislation. However, it does not follow that a portion of the allowance or award can be considered income of the children. Indeed, in the case of social assistance, payments of assistance that can be regarded as income of children are not acceptable as shareable under the Unemployment Assistance Act. Obviously, it is illogical to regard the portion of an unemployment assistance payment to the head of a household, which relates to his dependent children, as income of the children for purposes of war veterans allowance and as income of the head of the household for purposes of unemployment assistance. Therefore, if in law this portion is income of children, it has been illegally shared by the federal government under the Unemployment Assistance Act; if not, its exemption as income of a recipient of war veterans allowance is wrong.

Last year we reported that by an amendment to the Regulations, which declared that \$10 of the old age security pension (\$20 in the case of a married couple each receiving the pension) was to be considered exempt income, there was a departure from the long established principle that old age pensions and war veterans allowances were parallel payments and that the exemption, in effect, increased the amounts of allowances and annual income ceilings of a group of war veterans allowance recipients whose incomes had by statute been adjusted substantially just eight months previously.

The increase of \$10 in the old age pension which came into effect on October 1, 1963 has, like that granted on February 1, 1962, been declared by regulation to be exempt income for purposes of the War Veterans Allowance Act, thus further augmenting the income of recipients thereunder who are over 70 years of age. An item is included in Supplementary Estimates (D), 1963-64 (Vote 45d—Veterans Affairs) which provides that, effective October 1, 1963, for purposes of the War Veterans Allowance Act and Part XI of the Civilian War Pensions and Allowances Act, the old age pension of \$75

per month shall be deemed to be \$55 per month. The effect of this item, if enacted, will be to give parliamentary sanction to the exemption of these increases.

89. *Civilian war pensions and allowances.* Reference was made in the previous paragraph to Part XI, Civilian War Pensions and Allowances Act which came into effect last year. This legislation makes available to designated groups of civilians associated with the war effort the same allowances that are available to war veterans. It is pointed out that the Old Age Assistance Act, the Blind Persons Act and the Disabled Persons Act contain provisions that no payment may be made to a recipient of an allowance under the War Veterans Allowance Act but do not prohibit payments to recipients of civilian war allowances.

90. *Veterans' hospitals and institutions.* In last year's Report (paragraph 104) we pointed out that hospitals and institutions operated by the Department of Veterans Affairs, originally established to take care of veterans requiring treatment for war service disabilities, were presently being occupied to a considerable extent by domiciliary care cases and war veterans allowance recipients. These two classes respectively accounted for 40% and 21% of the total patient days in these hospitals and institutions in 1961-62, whereas disability pensioners accounted for only 17%. We reported that during 1961-62 the average cost of maintaining patients in active treatment hospitals was \$18.76 per day compared with \$9.63 per day in non-active treatment centres, and we also referred to the fact that the cost per in-patient day of operating departmental hospitals and institutions had risen by 44.4% in the five-year period from 1956-57 to 1961-62. We concluded our comments with the suggestion that reappraisal of the Department's role in the operation of hospitals seems desirable in view of:

- (a) the declining numbers of pensionable disability cases being cared for;
- (b) the rising cost of operating hospitals;
- (c) the increasing use of expensive active treatment facilities for housing domiciliary care cases; and
- (d) the introduction of provincial hospital insurance plans under which most of the War Veterans Allowance recipients are insured.

In 1962-63 the proportion of patient-days accounted for by domiciliary care cases and war veterans allowance recipients rose slightly to 41% and 22% respectively, while that for disability pensioners remained at 17%. The cost of operating departmental hospitals and institutions was \$49,884,000 compared with \$46,771,000 in 1961-62. The figure for 1962-63, however, included \$2,717,000 for the cost of medical services provided to the hospitals by part-time doctors, an expense incurred but not allocated to hospital operations in previous years. On a comparative basis, therefore, the increase in the cost of operations in 1962-63 was \$396,000 over that for the preceding year. Based on a total of 2,545,552 in-patient days (2,453,514 in active treatment hospitals), the average

cost per patient day of maintaining patients in 1962-63 was \$20.21 in active treatment hospitals (including \$1.10 for medical services of part-time doctors) compared with \$10.88 in non-active treatment centres. Thus the situation outlined in last year's Report remained substantially unchanged during 1962-63.

91. *Employment of part-time doctors by Department of Veterans Affairs.* In paragraph 106 of last year's Report attention was drawn to an administrative problem resulting from the extensive staffing of Department of Veterans Affairs hospitals with part-time doctors retained on a negotiated fee basis, with no clearly defined terms of employment, to complement a nucleus of full-time medical personnel employed by the Department. The problem related to the status of funds derived from fees for services provided by the medical staff to patients who had been admitted to the hospitals on a paying basis, and this had become of greater significance because of the growing volume of paying patients arising out of the broadening of the treatment regulations in recent years. The Department, while forbidding full-time salaried employees to participate, had permitted the part-time doctors to make billings for services to such patients—encouraging them, however, to use the proceeds for purposes that would benefit the hospitals in which they were employed (although at some hospitals the part-time doctors formed associations to bill patients and divided the proceeds among themselves and in some instances full-time doctors became sharing members).

We reported last year that the Department had proposed that a solution to the problem might be the creation of a special fund under its control to which would be credited the proceeds from fees for services rendered paying patients by both the part-time and full-time doctors, the proceeds to be used for purposes specified by the Department, including the purchase of books for the hospital library and payment of expenses incurred by the hospital staff while attending scientific or similar meetings of benefit to the hospital. The Audit Office view was that, although there appeared to be merit in this approach in comparison with the former procedure, in that the Department would be in a better position to control the situation, parliamentary authority would be required for the establishment of the special fund as the proceeds from this source were public moneys and the Department's proposal would not meet the requirements of the Financial Administration Act regarding their disposition. Our reasons for this view were: (a) full-time doctors are public servants and any fees deriving from their services with the Department are public revenues, (b) there was no evidence that the annual negotiated fees for part-time doctors were to be with respect only to services rendered to patients entitled to free treatment, and (c) moneys collected arose from services undertaken in departmental hospitals using hospital facilities. We reported that the matter had been directed to the attention of the Treasury Board and that the general problem and the Department's proposed solution were under study by the Board.

The Treasury Board's study resulted in the issuance of Order in Council P.C. 1963-35/890 of June 13, 1963. This Order makes it clear that departmental payments to the "half-day" doctors are for services rendered to all persons admitted under the

provisions of the Veterans Treatment Regulations except those admitted under sections 13, 14, 23, 24 and 25 (the paying classes of patients) and also makes available departmental facilities, without charge, to doctors employed under the Order for the treatment of paying patients. Thus the part-time doctors remained in the position of being able to bill patients under the payment sections.

While the Order removes doubts regarding some aspects of the problem, in that it sanctions the use by part-time doctors of departmental facilities without charge and clearly defines the terms and basis of employment of the part-time doctors, it does not recognize the fact that there is no practical way to distinguish between the amount of service rendered paying patients by part-time doctors on the one hand and full-time doctors on the other. Services provided such patients, nominally assigned to part-time doctors, almost inevitably involve the services of full-time salaried practitioners. Thus, in effect, there is a government subsidy: either to the part-time doctor, if he bills in accordance with the provincial schedule of medical fees for the treatment given (including treatment by salaried departmental medical officers); or to the patient, if the fee billed by the "half-day" doctor is reduced to allow for services provided by salaried departmental officers (since this reduction would not be available to him in other hospitals).

An associated administrative problem, which has existed for some time and was not resolved by the Order referred to above, relates to the determination of time spent in hospitals to arrive at the number of half-days of attendance which forms the basis of the departmental payment to part-time doctors. This Order, as did previous Orders, provides that payment for professional services rendered shall be on the basis of a fee for "each half-day of attendance or the equivalent thereof". The Department has, however, never paid fees on the basis of actual time worked, having always regarded the half-day basis more as an administrative device than an actual method of control. Indeed, the recent Order makes the keeping of time records almost impracticable since it requires that the time spent in the hospital be allocated between service to paying patients and service to patients for whom the Department is directly responsible. While payments to the doctors are made monthly, ostensibly on the basis of attendance or services rendered in the month, in practice the "half-day" doctor is engaged on the basis of an annual honorarium the amount of which is negotiated between the doctor and the Department based on the Department's estimate of the value of the services to be rendered and the funds available for these purposes. Thus the "half-day" payment to a doctor may not bear any close relationship to the time actually spent in providing the services.

92. *Awards under the Pension Act.* In the 1960 Report (paragraph 72) attention was drawn to the difficulty in determining whether certain payments under the Pension Act, particularly those in respect of discretionary and compassionate awards and awards to persons in a dependent condition, are in conformity with the Act, and also to certain apparent inconsistencies in the Act. In the 1962 Report (paragraph 107) we quoted the recommendations made by the Standing Committee on Public Accounts, in its Fifth Report 1961, and reported the reaction thereto of the Canadian Pension Commission. We

then suggested that consideration be given to amending the legislation with a view to eliminating the inconsistencies. Attention is now drawn to two cases noted during the year under review which further illustrate the inconsistencies arising under this legislation.

With respect to persons in a "dependent condition" but in possession of large amounts of personal property, testimony before the Public Accounts Committee in 1961 indicated a change in policy respecting assets and, in fact, a committee set up by the Commission to consider the operation of section 38 of the Act had decided that persons in possession of assets in excess of \$6,000 (exclusive of a personally-owned home) were not to be considered as being in a "dependent condition". While this purportedly became the policy of the Commission, a review by the Audit Office revealed that it was not uniformly applied and a March 1962 award is cited by way of illustration. A mother applied for a "dependent parent award" under section 38(3) of the Act with the circumstances reported by the departmental investigator to be: that her soldier son, before his death in 1945, had assigned \$20 per month of his pay to her; that she was not employed and had exhausted her unemployment insurance benefits; that she had no income, other than free room and board from her daughter and son-in-law; and that she had expenses of \$45 monthly. Also reported, however, was the fact that she had recently sold her home and turned over to her son-in-law \$19,500 as an interest-free loan with no repayment terms set forth. Although such an amount, invested in a Government annuity, would have yielded her approximately \$130 monthly—more than the maximum prescribed by the Act—the Commission approved an award of \$50 monthly.

In the second case, a pension award appears to run counter to sections 40(1) and 45(2) of the Pension Act. Section 40(1) provides that no person shall be awarded more than one pension in respect of death and section 45(2) provides that reinstatement of a pension which has been discontinued because of remarriage may only take place if death of the husband occurred within five years of the date of remarriage. A "widowed mother" was awarded a "dependent parent pension" under the provisions of section 38(3) of the Act in 1944. In 1946 she remarried and, under the provisions of section 45(1), the award was discontinued. After 13 years of this marriage the husband died and the widow applied for reinstatement of the pension but was informed that under the provisions of section 45(2) this was prohibited. Further representations were made and, after reconsideration by the Commission, the following decision was recorded:

"It was agreed that a woman who has lost her right to pension by virtue of the provisions of section 45(2) may apply in respect of another child under section 38. Mrs. lost two sons in the services, and hence she is now entitled to apply for pension under section 38 in respect of the second son."

She was now considered to be the "widowed mother" dependent of the second son and another award was made effective September 1, 1960 and, although the recipient returned to employment in October 1961, the award continues in effect at the rate of \$100 monthly.

It is not clear to us if decisions such as those cited above are in accord with the intent of Parliament.

93. *Educational program costs.* Reference was made in last year's Report (paragraph 108) as well as in the 1961 Report (paragraph 82) to the costs of educational leave granted under the provisions of the Civil Service Regulations then in effect, and the view was expressed that the inclusion of such costs with salaries and expenses of employees on duty in the various departments was not conducive to effective parliamentary control over the expenditure.

The Regulations made under authority of the new Civil Service Act which came into force on April 1, 1962 make no provision for the payment of salary during periods of educational leave, but provide that a deputy head may grant leave without pay for not longer than three years to an employee for educational purposes related to the needs of the department.

Pending a review and clarification of the government's policy on educational leave with full or partial pay the Treasury Board, in July 1962, directed that departments should grant the employees concerned leave without pay to attend university pursuant to the Civil Service Regulations, and that where the deputy head is of the opinion that an employee who has been granted such leave without pay warrants some assistance from public funds during training, submissions indicating the reasons why financial assistance is warranted and requesting payment of allowances in lieu of full or partial salary should be submitted to the Treasury Board. An instance where a recipient of "educational leave", who had been granted such an allowance, was under the mistaken impression that he was on official duty, is given in paragraph 74.

As in previous years, the cost of financial assistance to persons on educational leave, in the form of allowances in lieu of salary, living allowances, tuition fees, book allowances, and travelling expenses was included with the cost of salaries and expenses of employees on duty in the various departments, and the accounts do not show the cost of the educational program as such. We discussed this matter with officers of the Department of Finance who informed us that they propose to give consideration to it with a view to showing educational program costs separately in the Public Accounts.

94. *Overpayments of salary.* Rates of pay for the civil service are established under the authority of sections 11 and 12 of the Civil Service Act, which read:

"11. The Governor in Council, after the Commission has had an opportunity of considering the matter and after considering any recommendations made by the Commission, shall

(a) establish rates of pay for each grade; and

(b) establish the allowances that may be paid in addition to pay.

"12. The rates of pay for grades shall consist of minimum rates, maximum rates and one or more intermediate rates, or such other rates as may in any special cases be appropriate."

The Treasury Board, acting for the Governor in Council, by T.B. 598360 of July 26, 1962 established a rate of pay for an individual employee in excess of the authorized

rates for the employee's grade, with effect from January 1, 1961. This conflicted with a ruling given by the Minister of Justice in 1929 to the effect that the Governor in Council had no power under the old Civil Service Act to approve of rates of compensation which would raise the salaries of a few persons in a class; in other words, the class was to be dealt with as a whole if at all. As the new Civil Service Act had come into force on April 1, 1962, the question was again referred to the Department of Justice and the Deputy Attorney General expressed the opinion on June 7, 1963 that sections 11 and 12 of the present Act do not authorize a rate of pay to be established for a particular person or employee in a grade, or in respect of a particular position in a grade, in excess of the rates established for that grade.

A copy of this opinion was sent to the Central Pay Office on June 17, 1963 (the Department of Finance and the Civil Service Commission were advised by the Department of Justice) but the employee was still receiving excess salary in October 1963.

Copies of the Deputy Attorney General's opinion were sent to the Secretary of the Treasury Board and to the Comptroller of the Treasury on August 12, 1963, in connection with a Treasury Board Minute of May 9, 1963 which established special rates of pay for three grades in the class "Collector, Customs and Excise", and directed that payment at the special rates be made to certain employees in these grades. The employees concerned were still being paid at the special rates in October 1963.

95. *Granting of sick leave to employees prior to retirement.* An opinion was given by the Deputy Minister of Justice in 1930 to the effect that, since sick leave is granted for the purpose of enabling an employee to resume his duties in the public service, it could not properly be granted to an employee if his department had information that he would not be able, or did not intend, to return to duty at the termination of such leave.

The opinion expressed in 1930 stood until 1963. A case was observed of an employee who had gone on sick leave in December 1961 and was being permitted to remain in that status until the normal retirement date in June 1963, although the employing department had received a medical opinion late in 1962 that the employee would never recover sufficiently to return to duty. When the matter was raised with the Deputy Minister of Justice, he pointed to the provision of section 47 of the Regulations made in accordance with the Civil Service Act, 1961, c. 57, which permits a deputy head who is satisfied that an employee is unable to perform the duties of his position because of sickness or injury to grant leave of absence with pay "to the extent that such leave has been earned by that employee in accordance with the provisions of the Regulations". The Deputy Minister gave the following as his opinion:

"There is nothing in the present Act or Regulations to prevent a deputy head from exercising his discretion by granting an employee such sick leave as he or she has accumulated, where it appears that the employee may not in fact, for reasons of health, be able to return to his or her duties in the Civil Service. Of course, if the employee does not intend to return to such duties, even if restored to health, that is a fact that ought to be taken into consideration by the deputy head in deciding whether or not to exercise his discretion in favour of granting leave."

In June 1963 the Audit Office informed both the Chairman of the Civil Service Commission and the Secretary of the Treasury Board of the opinion expressed by the Deputy Minister of Justice and each was asked if the opinion conformed to his understanding of the policy intended to be applied. The former replied that it was the intention of the Commission to examine the desirability of continuing the practice which had been followed for many years and that if it were concluded that this should be the case, consideration would be given to the most appropriate means of achieving it. The Secretary of the Treasury Board informed us that the Board had expected that the provisions of the Civil Service Regulations which had remained unchanged when the present regulations became effective on April 1, 1962 (no change was involved in the discretionary aspect of sick leave) would continue to be interpreted and administered as they had before. He also stated that the Board expected that the discretionary feature of sick leave would be applied in such a way "as to avoid conflict with the disability allowance provision of the Public Service Superannuation Act".

96. *Identical tenders.* In Paragraph 114 of last year's Report (and in paragraph 77 of the 1961 Report) reference was made to identical bids received by the Department of Public Works for the supply of incandescent lamps and fluorescent tubes to meet the needs of various federal buildings throughout Canada. Last year, after commenting on other cases of identical tenders which had also been observed in our examination of departmental records during the year then under review, it was stated that we had suggested to officers of the Combines Branch that it might be desirable were all identical tenders received by government departments, Crown corporations and other agencies to be listed each year by the Combines Branch in the annual report made by the Director of Investigation and Research to the Minister of Justice under section 44 of the Combines Investigation Act.

Following the tabling of my 1962 Report, the Director informed us that he did not feel that he would be justified in accepting this suggestion. His view was that where certain economic facts exist, such as "a relatively small number of sellers and a homogeneous product", identical tenders or prices of themselves are not sufficient evidence of collusion to warrant commencing an inquiry, and he felt that the publication of identical tenders received by departments and agencies of the Crown might lead to an assumption on the part of the public that they were to be regarded with suspicion, and were published because they raised some serious question as to their legality under the Combines Investigation Act. He was accordingly unwilling to take the initiative in providing details which might give rise to such an inference and felt that the adoption of a policy of publishing identical tenders in some form would be a matter for the government rather than the Director to decide.

Since the close of the year under review, the Treasury Board has expressed concern to departments that equally low bids in respect of a number of products frequently come to its attention and has indicated an intent to give further consideration to the situation. On November 14, 1963 the Board decided that a uniform policy should be established and

to that end directed that, in future, when identical bids are received, all proposed contracts, regardless of amount, should be referred to the Board for selection of the contractor. The Board stated that the only products which are exempt from this procedure are milk products where prices are controlled by provincial authorities.

97. *Losses reported in the Public Accounts.* Section 98 of the Financial Administration Act directs that "every payment out of the Public Officers Guarantee Account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the Public Accounts".

The statements of losses included in the Public Accounts for 1962-63 were examined and it was ascertained that every loss during the year, which had been observed in the audit as being of a nature requiring to be reported in the Public Accounts in accordance with the foregoing direction, had been included in the listings. Losses in departments other than the Post Office numbered 26 and amounted to \$136,116. Of these, 13 involving \$88,335 were recovered in full during the year, and partial recoveries of \$4,932 were obtained in other cases. Losses suffered by the Post Office Department numbered 141 and amounted to \$75,460. Of these, 107 to a total of \$44,270 were recovered in full and partial recoveries totalled \$12,007.

98. *Non-productive payments.* Paragraph 71 of the Fifth Report 1961 of the Public Accounts Committee reads:

"The Committee gave consideration to the extent to which it felt it would wish to be informed regarding non-productive payments in future. Although it recognized the difficulty that would be involved in defining a 'non-productive payment', it came to the conclusion that information regarding such payments would be of value, and it accordingly requests the Auditor General, in his future annual reports to the House of Commons, to include listings of any such payments that might have come to his notice in the course of his audit."

In accordance with the request contained in the foregoing observation, a listing is given, as Appendix 1 to this Report, of the payments that, in the absence of a precise definition, might be regarded as non-productive in character which were observed in the course of the audit of expenditures for the fiscal year 1962-63.

Summary of Assets and Liabilities

99. The Statement of Assets and Liabilities as at March 31, 1963, with comparable figures at the end of the preceding year, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General in accordance with section 64 of the Financial Administration Act, is reproduced as Exhibit 2 to this Report.

Assets

100. The following table lists the assets at March 31, 1963, by main headings in the Statement of Assets and Liabilities, in comparison with the corresponding balances at the close of the two previous fiscal years:

	<u>March 31, 1961</u>	<u>March 31, 1962</u>	<u>March 31, 1963</u>
Current assets	\$ 784,348,000	\$ 1,246,016,000	\$ 820,271,000
Advances to the Exchange Fund Account	2,024,000,000	1,793,000,000	2,736,000,000
Sinking fund and other investments held for retirement of unmatured debt	17,018,000	19,432,000	22,312,000
Loans to and investments in Crown cor- porations	3,614,188,000	3,985,330,000	4,468,119,000
Loans to national governments	1,378,196,000	1,339,797,000	1,210,777,000
Other loans and investments	1,035,651,000	993,863,000	1,110,655,000
Securities held in trust	30,043,000	25,837,000	26,016,000
Deferred charges	733,702,000	727,826,000	936,644,000
Suspense accounts	136,000	136,000	136,000
Inactive loans and investments	94,824,000	94,824,000	94,824,000
	<hr/>	<hr/>	<hr/>
Total Assets	9,712,106,000	10,226,061,000	11,425,754,000
Less—Reserve for losses on realization of assets	546,384,000	546,384,000	546,384,000
	<hr/>	<hr/>	<hr/>
Net Assets	\$ 9,165,722,000	\$ 9,679,677,000	\$ 10,879,370,000
	<hr/>	<hr/>	<hr/>

101. *Current assets.* The balances included under this heading at March 31, 1963, with the comparable balances at the close of the two previous years, were:

	<u>March 31, 1961</u>	<u>March 31, 1962</u>	<u>March 31, 1963</u>
Cash	\$ 486,760,000	\$ 895,321,000	\$ 511,347,000
Departmental working capital advances and revolving funds:			
Agricultural commodities stabilization ac- count	90,198,000	132,783,000	139,043,000
Defence production revolving fund	15,651,000	27,297,000	39,068,000
Other	65,234,000	63,300,000	65,156,000
	<i>171,083,000</i>	<i>223,380,000</i>	<i>243,267,000</i>
Securities held for the securities investment account	101,454,000	94,608,000	33,480,000
Other current assets	25,051,000	32,707,000	32,177,000
	<hr/>	<hr/>	<hr/>
	\$ 784,348,000	\$ 1,246,016,000	\$ 820,271,000
	<hr/>	<hr/>	<hr/>

The \$139,043,000 balance of the Agricultural Commodities Stabilization Account at March 31, 1963 was \$6,260,000 greater than the corresponding amount at the end of the preceding year, the difference being more than accounted for by the increase of \$16,861,000 in the inventory of butter held by the Agricultural Stabilization Board offset, in part, by a decrease of \$9,311,000 in the inventory of pork products.

The increase of \$11,771,000 in the Defence Production Revolving Fund was mainly accounted for by progress payments of \$8,136,000 made to various suppliers in connection with the production of CF-104G aircraft to be supplied to European nations under the Mutual Aid Program.

The decrease of \$61,128,000 in the balance of the Securities Investment Account was accounted for by (a) a decrease of \$50,458,000 in the temporary holding of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act, and (b) the sale of \$10,670,000 of the securities received by the Minister of Finance on February 21, 1962 on assignment from the Canadian Arsenal's Limited Pension Fund, with the approval of the Governor in Council. As mentioned in last year's Report (paragraph 118) the assignment arose upon the transfer to the Public Service Superannuation Account of the liability for the payment of pensions to pensioners and former contributors to the fund. Under the terms of this transfer, the Minister of Finance credited the Public Service Superannuation Account with the proceeds derived from the securities sold during the year. At March 31, 1963 there remained \$1,488,000 of the securities to be sold.

102. *Advances to the Exchange Fund Account.* This Account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the Minister from time to time within the maximum (\$3,000,000,000 at March 31, 1963) authorized by the Governor in Council under section 23 of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The advances to the Account at each year-end are included in the Statement of Assets and Liabilities at their total, less repayments, with a parenthetical note giving the market value of the investments from the advances. Thus at March 31, 1963 the amount shown for "Advances to the Exchange Fund Account" was \$2,736,000,000, being the total of the advances less repayments, whereas the market value of investments from advances was \$2,757,046,000, indicating an unrecorded surplus of \$21,046,000. By comparison, at the close of the two previous years there were unrecorded deficiencies of \$33,310,000 at March 31, 1962 and \$154,042,000 at March 31, 1961.

A summary of the transactions in the Account for its financial year ended December 31, 1962 is included in paragraph 175 of this Report.

103. *Sinking fund and other investments held for retirement of unmatured debt.* This item represents the investments held for the sinking fund maintained with respect to Newfoundland loans which were assumed under the Terms of Union.

104. *Loans to and investments in Crown corporations.* The following table lists these loans and investments at March 31, 1963, with the comparable balances at the close of the two previous years:

	<u>March 31, 1961</u>	<u>March 31, 1962</u>	<u>March 31, 1963</u>
Central Mortgage and Housing Corporation \$	1,510,711,000	\$ 1,701,029,000	\$ 1,802,806,000
Canadian National Railways	1,092,590,000	1,165,039,000	1,439,328,000
The St. Lawrence Seaway Authority	339,927,000	368,216,000	390,888,000
Farm Credit Corporation	155,754,000	209,971,000	268,968,000
National Harbours Board	172,770,000	178,743,000	192,579,000
Northern Ontario Pipe Line Crown Corporation	123,750,000	119,035,000	110,555,000
Atomic Energy of Canada Limited	60,930,000	65,827,000	53,258,000
Canadian Overseas Telecommunication Corporation	31,686,000	37,918,000	49,321,000
National Capital Commission	25,232,000	31,478,000	40,906,000
Export Credits Insurance Corporation	10,000,000	15,288,000	34,955,000
Polymer Corporation Limited	30,000,000	30,000,000	30,000,000
Northern Canada Power Commission	26,463,000	26,158,000	19,003,000
Other balances	34,375,000	36,628,000	35,552,000
	<u>\$ 3,614,188,000</u>	<u>\$ 3,985,330,000</u>	<u>\$ 4,468,119,000</u>

The increase of \$102 million in the amount shown for Central Mortgage and Housing Corporation during the year ended March 31, 1963 was largely accounted for by advances of \$137 million, less repayments of \$69 million, pursuant to section 22 of the Central Mortgage and Housing Corporation Act, R.S., c. 46, together with advances of \$45 million, less repayments of \$7 million, in respect of Federal-Provincial projects.

The increase of \$274 million in the amount shown for Canadian National Railways was accounted for by advances of \$303 million under Canadian National Railways Financing and Guarantee Acts and by a further investment of \$19 million in 4% preferred stock in the company pursuant to section 6 of the Canadian National Railways Capital Revision Act, R.S., c. 311, less a repayment of \$3 million by Trans-Canada Air Lines, and reductions of \$41 million and \$4 million as a result of charging to expenditure the temporary loans made to the Canadian National Railways and its subsidiary, Trans-Canada Air Lines, to meet their 1962 "income deficits".

Further loans of \$7 million to The St. Lawrence Seaway Authority during the year under review, plus an additional \$16 million for deferred interest on loans, accounted for the increase of \$23 million during the year to bring the investment in the Authority to \$390,888,000 at March 31, 1963 (see paragraph 158).

The \$110,555,000 of loans to the Northern Ontario Pipe Line Crown Corporation at March 31, 1963 were repaid in full by the Corporation in May 1963 following the sale of the Northern Ontario section of the all-Canadian natural gas pipe line.

105. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1963 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1961	March 31, 1962	March 31, 1963
Belgium	\$ 36,912,000	\$ 34,605,000	\$ 32,298,000
France	143,650,000	135,200,000	67,600,000
India	29,546,000	24,831,000	20,117,000
Netherlands	74,013,000	68,850,000	32,130,000
United Kingdom	1,091,544,000	1,074,476,000	1,057,045,000
Other countries	2,531,000	1,835,000	1,587,000
	<u>\$ 1,378,196,000</u>	<u>\$ 1,339,797,000</u>	<u>\$ 1,210,777,000</u>

The reductions totalling \$129 million during the year ended March 31, 1963 were the result of the continued orderly repayment of each of the loans as the instalments fell due, together with special repayments by the Governments of France and the Netherlands.

106. *Other loans and investments.* The balances comprising this asset item at March 31, 1963, with the comparable balances at the end of the two previous years, were:

	March 31, 1961	March 31, 1962	March 31, 1963
Subscriptions to capital of and working capital advances and loans to international organizations	\$ 631,127,000	\$ 659,936,000	\$ 693,998,000
Veterans' Land Act advances	199,644,000	207,953,000	224,486,000
Less—Reserve for conditional benefits ..	33,552,000	30,598,000	28,467,000
	<i>166,092,000</i>	<i>177,355,000</i>	<i>196,019,000</i>
Loans to provincial governments	98,372,000	97,879,000	116,818,000
Balances receivable under agreements of sale of Crown assets	12,094,000	10,622,000	8,303,000
Temporary loans to Old Age Security Fund	17,283,000		41,679,000
Loans to Unemployment Insurance Commission	67,000,000		
Other balances	43,683,000	48,071,000	53,838,000
	<u>\$ 1,035,651,000</u>	<u>\$ 993,863,000</u>	<u>\$ 1,110,655,000</u>

The following is a listing of the balances comprising the \$693,998,000 shown for the first item in the above table as at March 31, 1963:

Subscriptions to capital:	
International Monetary Fund	\$ 577,250,000
International Bank for Reconstruction and Development	80,483,000
International Development Association	24,927,000
International Finance Corporation	3,522,000
	<u>686,182,000</u>
Working capital advances and loans	7,816,000
	<u>\$ 693,998,000</u>

During the year ended March 31, 1963, Canada's subscription to the International Monetary Fund was increased by \$13 million, through the issue of additional non-interest bearing notes, as a result of revaluation of the Canadian dollar portion of the subscription based on the rate of exchange for the United States dollar at January 31, 1963.

The \$41,679,000 of temporary loans to the Old Age Security Fund at March 31, 1963 represented the deficit resulting from transactions up to that date in the special account provided for by section 11 of the Old Age Security Act, R.S. 200. The following is a summary of the transactions relating to the Fund during the past three years:

	<u>1960-61</u>	<u>1961-62</u>	<u>1962-63</u>
Collections of tax			
On sales	\$ 270,231,000	\$ 284,879,000	\$ 302,239,000
On personal incomes	229,400,000	258,950,000	273,650,000
On corporation incomes	103,500,000	100,125,000	115,250,000
	<u>603,131,000</u>	<u>643,954,000</u>	<u>691,139,000</u>
Payments of pensions under the Act	592,413,000	625,107,000	734,382,000
	<u>592,413,000</u>	<u>625,107,000</u>	<u>734,382,000</u>
Surplus or (deficiency) during the year	10,718,000	18,847,000	(43,243,000)
Preceding year's balance brought forward	(28,001,000)	(17,283,000)	1,564,000
	<u>(28,001,000)</u>	<u>(17,283,000)</u>	<u>1,564,000</u>
Balance at credit or (debit) at year-end	\$ (17,283,000)	\$ 1,564,000	\$ (41,679,000)
	<u><u>(17,283,000)</u></u>	<u><u>1,564,000</u></u>	<u><u>(41,679,000)</u></u>

The loans to the Unemployment Insurance Commission in 1960-61, on the security of Government of Canada bonds, were repaid in full during the fiscal year ended March 31, 1962 (see paragraph 181).

107. *Securities held in trust.* The \$26,016,000 total of balances comprising this item in the Statement is represented by securities held for the following accounts: contractors' securities, \$9,435,000; guarantee deposits in respect of oil and gas permits, \$6,515,000; guarantee deposits in respect of customs duties and excise taxes, \$4,226,000; securities held for pilots' pension funds, \$3,803,000; and other, \$2,037,000.

108. *Deferred charges.* The balances included under this heading at March 31, 1963, with the comparable balances at the close of the two previous years, were:

	<u>March 31, 1961</u>	<u>March 31, 1962</u>	<u>March 31, 1963</u>
Unamortized portion of actuarial deficiencies—			
Canadian forces superannuation account	\$ 326,300,000	\$ 326,300,000	\$ 524,849,000
Public Service superannuation account	276,661,000	276,661,000	276,661,000
Royal Canadian Mounted Police superannuation account		3,533,000	3,533,000
	<u>602,961,000</u>	<u>606,494,000</u>	<u>805,043,000</u>
Unamortized loan flotation costs	130,741,000	121,332,000	131,601,000
	<u>130,741,000</u>	<u>121,332,000</u>	<u>131,601,000</u>
	<u><u>\$ 733,702,000</u></u>	<u><u>\$ 727,826,000</u></u>	<u><u>\$ 936,644,000</u></u>

The amounts appearing under the heading "unamortized portion of actuarial deficiencies" represent the balances of amounts set up in the accounts when bookkeeping entries were made for the purpose of increasing the balances at credit of the relative superannuation accounts, including an additional entry of \$198,549,000 in the Canadian Forces Superannuation Account during the year under review. In paragraphs 124 and 125 the Audit Office view is again restated that these bookkeeping entries should not have been made and that, instead, the actuarial deficiencies should have simply been disclosed by means of a Note to the Statement of Assets and Liabilities.

The item "Unamortized loan flotation costs" records the unamortized portion of the cost of discounts and commissions incurred in the issuance of loans. The following is a summary of the transactions for the year under review:

Balance, April 1, 1962	\$ 121,332,000
Add:	
Costs incurred in issuing new loans during the year	50,751,000
Adjustments due to cancellations, exchanges, conversions and additional issues of existing loans	2,214,000
	<hr/>
	174,297,000
Deduct:	
Amortization charges included in 1962-63 Expenditure	42,696,000
	<hr/>
Balance, March 31, 1963	\$ 131,601,000
	<hr/>

109. *Suspense accounts.* The \$136,000 shown for this item on the assets side of the Statement represents the balance, unchanged during the year under review, of the Cheque Adjustment Account, which reflects the total of the individual balances that remained unadjusted in the process of reconciling payments to the chartered banks for redemption of paid cheques with the relative amounts as subsequently determined. The balance includes amounts relating to the fiscal years 1942-43 to 1960-61.

110. *Inactive loans and investments.* The \$94,824,000 shown for this item in the Statement at March 31, 1963, unchanged from the two previous years, comprised the following balances:

Loan to China, in 1946, under the Export Credits Insurance Act	\$49,426,000
Loans to Greece and Roumania, in 1919, for the purchase of goods produced in Canada	30,551,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company (carrying prior guarantee by the Government of China)	14,470,000
Loan to Province of Saskatchewan, in 1908, for the purchase of seed grain	74,000
	<hr/>
	\$94,824,000
	<hr/>

Liabilities

111. The following table lists the liabilities at March 31, 1963 by main headings in the Statement of Assets and Liabilities in comparison with the corresponding balances at the close of the two previous fiscal years:

	<u>March 31, 1961</u>	<u>March 31, 1962</u>	<u>March 31, 1963</u>
Current and demand liabilities	\$ 1,147,561,000	\$ 1,234,081,000	\$ 1,631,338,000
Deposit and trust accounts	239,667,000	266,624,000	225,203,000
Annuity, insurance and pension accounts	3,955,510,000	4,245,942,000	4,747,017,000
Undisbursed balances of appropriations to special accounts	104,493,000	115,135,000	119,952,000
Deferred credits	79,073,000	94,991,000	107,739,000
Suspense accounts	8,618,000	5,305,000	6,055,000
Unmatured debt	16,067,915,000	16,945,736,000	17,961,836,000
	<u>\$ 21,602,837,000</u>	<u>\$ 22,907,814,000</u>	<u>\$ 24,799,140,000</u>

112. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1963, in comparison with the corresponding balances at the close of the two previous years, were:

	<u>March 31, 1961</u>	<u>March 31, 1962</u>	<u>March 31, 1963</u>
Non-interest bearing notes payable to the International Monetary Fund and the International Development Association ...	\$ 383,660,000	\$ 372,032,000	\$ 757,284,000
Accounts payable	221,396,000	280,711,000	267,364,000
Outstanding Treasury cheques	251,741,000	265,658,000	266,409,000
Interest accrued	154,016,000	174,601,000	196,974,000
Other balances	136,748,000	141,079,000	143,307,000
	<u>\$ 1,147,561,000</u>	<u>\$ 1,234,081,000</u>	<u>\$ 1,631,338,000</u>

113. *Deposit and trust accounts.* The following is a listing of the balances included in this item at March 31, 1963 in comparison with the corresponding balances at the close of the two previous fiscal years:

	<u>March 31, 1961</u>	<u>March 31, 1962</u>	<u>March 31, 1963</u>
Deposits by Crown corporations	\$ 19,400,000	\$ 24,175,000	\$ 30,004,000
Indian trust funds	28,516,000	28,523,000	28,877,000
Post Office Savings Bank	28,513,000	27,365,000	25,880,000
Contractors' holdbacks	15,365,000	17,793,000	17,724,000
Korean operations pool	16,117,000	16,117,000	16,117,000
Contractors' security deposits	21,804,000	18,003,000	13,025,000
Canadian Pension Commission (Administration trust fund)	10,980,000	12,087,000	13,024,000
Guarantee deposits	13,758,000	10,403,000	12,505,000
Instalment purchase of bonds by public service employees	11,845,000	12,416,000	12,297,000
Other balances	73,369,000	99,742,000	55,750,000
	<u>\$ 239,667,000</u>	<u>\$ 266,624,000</u>	<u>\$ 225,203,000</u>

The accounts of the Korean Operations Pool are maintained by the Australian Government and record the expenditures incurred by the Commonwealth countries which had participated in the Korean war, and the apportionment of these expenditures among the countries according to their respective shares. The balance of the account, as shown in the above table, represents the amount available towards settling the remainder of Canada's share of the expenditures when all other participating governments have submitted their billings to the Pool and a final accounting is made.

The \$55,750,000 shown for "other balances" at March 31, 1963 represents the total of 82 balances, including: National Harbours Board special accounts, \$7,855,000; Canadian National Railways Income deficit account, \$7,635,000; veterans' trust funds, \$7,276,000; Army Benevolent Fund, \$6,013,000; United States of America, \$5,902,000; deferred pay of Armed Forces personnel, \$3,196,000; common school funds, \$2,678,000; and National Research Council special fund, \$2,013,000.

114. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1963, in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	<u>March 31, 1961</u>	<u>March 31, 1962</u>	<u>March 31, 1963</u>
Government annuities	\$ 1,199,123,000	\$ 1,235,305,000	\$ 1,264,436,000
Public Service Superannuation Account ..	1,468,848,000	1,586,929,000	1,724,116,000
Canadian Forces Superannuation Account	1,155,333,000	1,279,239,000	1,605,797,000
Other balances	132,206,000	144,469,000	152,668,000
	<u>\$ 3,955,510,000</u>	<u>\$ 4,245,942,000</u>	<u>\$ 4,747,017,000</u>

The following is a summary of the transactions in the *Government Annuities Account* during the year under review:

Balance, April 1, 1962		\$ 1,235,305,000
Add:		
Premiums received	\$ 37,532,000	
Interest credits	47,415,000	
		<u>84,947,000</u>
		1,320,252,000
Deduct:		
Vested annuity and commuted value payments and refunds	55,399,000	
Transfer to Revenue of the excess over Fund valuation ..	417,000	
		<u>55,816,000</u>
Balance, March 31, 1963		<u>\$ 1,264,436,000</u>

A summary of the transactions in the *Public Service Superannuation Account* during the year ended March 31, 1963 is as follows:

Balance, April 1, 1962		\$ 1,586,929,000
Add:		
Contributions by participants	\$ 68,401,000	
Contributions by Government	53,966,000	
Interest credits	66,362,000	
Other credits	274,000	
		<hr/> 189,003,000
		<hr/> 1,775,932,000
Deduct:		
Annuity payments	43,586,000	
Withdrawals of contributions	7,564,000	
Other charges	666,000	
		<hr/> 51,816,000
		<hr/> 1,724,116,000
Balance, March 31, 1963		<hr/> <hr/>

A comment is made in paragraph 124 regarding the composition of the balance at credit of this Account.

The following is a summary of the transactions in the *Canadian Forces Superannuation Account* during the year ended March 31, 1963:

Balance, April 1, 1962		\$ 1,279,239,000
Add:		
Contributions by participants	\$ 34,458,000	
Contributions by Government	58,103,000	
Interest credits	53,085,000	
Actuarial adjustment (contra, "deferred charges" account)	198,549,000	
Other credits	314,000	
		<hr/> 344,509,000
		<hr/> 1,623,748,000
Deduct:		
Annuity payments	9,915,000	
Gratuities and withdrawal allowances	7,968,000	
Other charges	68,000	
		<hr/> 17,951,000
		<hr/> 1,605,797,000
Balance, March 31, 1963		<hr/> <hr/>

A comment is made in paragraph 125 regarding the actuarial adjustment in this Account during the year and the composition of the balance at credit of the Account at the year-end.

Included in the \$152,668,000 shown for "other balances" at March 31, 1963 in the table given above with respect to the item "annuity, insurance and pension accounts", is the \$14,636,000 uninvested portion of the Unemployment Insurance Fund on deposit with the Receiver General. A summary of the transactions in the Fund during the year under review, in comparison with the corresponding amounts for the two previous fiscal years, is given in paragraph 181.

115. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances comprising this item in the Statement of Assets and Liabilities, compared with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1961	March 31, 1962	March 31, 1963
Colombo Plan Fund	\$ 67,533,000	\$ 77,626,000	\$ 85,325,000
Railway Grade Crossing Fund	34,050,000	33,754,000	26,703,000
National Capital Fund	2,510,000	3,660,000	6,776,000
National Centennial Fund			1,000,000
Other	100,000	95,000	148,000
	<u>\$ 104,493,000</u>	<u>\$ 115,135,000</u>	<u>\$ 119,952,000</u>

During the year ended March 31, 1963 an amount of \$41,500,000, provided by Department of External Affairs Vote 55, was credited to the account for the Colombo Plan, while expenditures totalling \$33,800,000 were charged to the account for aid given to countries in South and South-East Asia.

Amounts totalling \$5,833,000, provided under section 265 of the Railway Act, c. 234, R.S., and Department of Transport Vote 212, were credited to the account for the Railway Grade Crossing Fund during 1962-63, while expenditures totalling \$12,884,000 were incurred in aiding in the cost of installing protective devices at railway grade crossings, grade separations and reflective markings on the sides of railway cars.

During the year ended March 31, 1963 an amount of \$8,616,000, provided by Department of Public Works Vote 220, was credited to the account for the National Capital Fund, while amounts totalling \$5,500,000 were charged to the account for payments to the National Capital Commission to finance the cost of capital projects approved by the Governor in Council.

A comment regarding the \$1,000,000 at the credit of the National Centennial Fund at March 31, 1963 is made in paragraph 151 of this Report.

116. *Deferred credits.* The following is an analysis of this item at the close of the 1962-63 fiscal year and the two previous years:

	March 31, 1961	March 31, 1962	March 31, 1963
Deferred interest on loans to The St. Lawrence Seaway Authority	\$ 19,427,000	\$ 33,716,000	\$ 49,388,000
Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946	44,174,000	44,174,000	44,174,000
Credits arising from the recording of agreements of sale of Crown assets	9,955,000	8,772,000	6,743,000
Equity in agency account of Crown Assets Disposal Corporation	4,929,000	7,242,000	5,884,000
Other balances	588,000	1,087,000	1,550,000
	<u>\$ 79,073,000</u>	<u>\$ 94,991,000</u>	<u>\$ 107,739,000</u>

The only significant change during the year was the increase of \$15,672,000 in the deferred interest on loans to The St. Lawrence Seaway Authority. This deferred interest

is payable by the Authority over a 46-year period commencing in 1964, along with repayments of principal (see paragraph 158).

117. *Suspense accounts.* There was no appreciable change in this item on the liabilities side of the Statement during the year ended March 31, 1963. The year-end figure of \$6,055,000 included balances of \$1,358,000 for the unclaimed cheques account and \$1,122,000 for the National Defence replacement of materiel account. During the year, credits to the latter account totalled \$840,000 for the proceeds of sales to other countries, pursuant to section 11 of the National Defence Act, while an amount of \$1,114,000 was charged for the procurement of replacement materiel.

118. *Unmatured debt.* A summary of the unmaturred debt outstanding at March 31, 1963, in comparison with balances outstanding at the close of the two previous years, is as follows:

	March 31, 1961	March 31, 1962	March 31, 1963
Bonds			
Payable in Canada	\$ 14,002,751,000	\$ 14,930,571,000	\$ 15,385,847,000
Payable in London	31,989,000	31,990,000	34,584,000
Payable in New York	98,175,000	98,175,000	376,405,000
	<u>14,132,915,000</u>	<u>15,060,736,000</u>	<u>15,796,836,000</u>
Treasury Bills (not exceeding 180 days) ..	1,935,000,000	1,885,000,000	2,165,000,000
	<u>\$ 16,067,915,000</u>	<u>\$ 16,945,736,000</u>	<u>\$ 17,961,836,000</u>

The increase of \$455 million in the debt payable in Canada is the amount by which new borrowings of \$3,834 million during the year exceeded redemptions of \$3,379 million of prior issues. Canada savings bonds accounted for \$1,712 million of the new borrowings and \$1,185 million of the redemptions.

The increase of \$278,230,000 in the bond debt payable in New York resulted from a new security issue in the principal amount of \$270,000,000 due October 15, 1987, with interest at 5%, together with a year-end adjustment to the ruling rate of exchange.

Issues payable in London were valued on the basis of £1 Sterling=\$3.027 Canadian while those payable in New York were valued at \$1 U.S.=\$1.08108 Canadian.

It has always been the practice to include Treasury Bills and bonds maturing within the ensuing fiscal year in the amount shown for "unmatured debt" along with issues maturing at later dates. In addition to Treasury Bills of \$2,165,000,000 shown in the above summary as maturing within 180 days, the following issues, all payable in Canada, fall due within the current fiscal year:

Loan of 1960 due April 1, 1963	\$ 12,802,000
Loans of 1961 and 1962 due April 1, 1963	300,000,000
Loans of 1961 due June 1, 1963	275,000,000
Canada Savings Bonds of 1952 due August 1, 1963	19,203,050
Eighth Victory Loan due October 1, 1963	223,020,200
Loan of 1960 due December 15, 1963	300,000,000
Loan of 1963 due February 1, 1964	125,000,000
	<u>\$ 1,255,025,250</u>

Net Debt

119. With the Liabilities amounting to \$24,799,140,000 (paragraph 111) and the Assets to \$10,879,370,000 (paragraph 100), the Net Debt at March 31, 1963 was \$13,919,770,000. The following is an analysis of the Net Debt Account for the year under review:

Balance, April 1, 1962		\$ 13,228,137,000
Add—Deficit for the fiscal year 1962-63:		
Expenditure	\$ 6,570,342,000	
Revenue	5,878,709,000	
		691,633,000
Balance, March 31, 1963		<u>\$ 13,919,770,000</u>

Contingent Liabilities

120. A note on the Liabilities side of the Statement of Assets and Liabilities gives the totals of the several classes of contingent liabilities outstanding at the year-end and makes reference to the appendix to the Public Accounts (Volume I, page 180) where details are to be found.

The following is a summary of the main contingent liabilities with determinate amounts which were outstanding at March 31, 1963, in comparison with the corresponding amounts at the close of the two preceding years:

	<u>March 31, 1961</u>	<u>March 31, 1962</u>	<u>March 31, 1963</u>
Insured loans made by approved lenders under the National Housing Act, 1954 ..	\$ 3,017,404,000	\$ 3,640,000,000	\$ 4,123,000,000
Railway securities guaranteed as to principal and interest	1,672,634,000	1,636,100,000	1,381,361,000
Deposits maintained by chartered banks in Bank of Canada	656,295,000	696,008,000	741,870,000
Guarantees under Export Credits Insurance Act, Part I	109,934,000	291,700,000	333,646,000
Loans made by chartered banks to Canadian Wheat Board	125,558,000	113,555,000	80,331,000
Other contingent liabilities of determinate amounts	89,783,000	66,299,000	73,998,000
	<u>\$ 5,671,608,000</u>	<u>\$ 6,443,662,000</u>	<u>\$ 6,734,206,000</u>

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under National Housing Acts prior to the 1954 Act.

Comments on Assets and Liabilities

121. Section 64 of the Financial Administration Act requires that there be included in the Public Accounts "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are

required to show the financial position of Canada as at the termination of the fiscal year".

122. The Statement of Assets and Liabilities at March 31, 1963 was prepared by the Department of Finance on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the Public Accounts:

"With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of \$1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.

"On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the 'Current and demand liabilities' schedule to the statement of assets and liabilities."

The comment was made in last year's Report (paragraph 139) that, while the Statement of Assets and Liabilities may seem to correspond in appearance to the balance sheet of a large commercial undertaking, it is important for the reader to understand that it is not a balance sheet within the generally accepted meaning of the term. This is because the Statement in its present form omits a number of items which would normally appear as assets on a commercial balance sheet, while at the same time including others which are of doubtful value. Similarly, certain items appear as liabilities which are not generally found as such in commercial practice. The showing of the excess of liabilities over net assets as a "net debt" item on the assets side of the Statement is confusing, and in our view the term would be more appropriately used to describe the net result shown by a statement exhibiting the gross debt, less recorded assets, at the termination of the fiscal year.

Over the years, as was mentioned in last year's Report, the Audit Office has subscribed to the view that little advantage would be gained by attempting to convert the central accounting system of the Government from the cash basis to the accrual basis. It has recognized that the Executive must know at all times what funds are required to be raised to meet expenditures expected to come in course of payment within the fiscal year. Parliament in turn must always be basically interested in examining the country's financial needs in terms of cash required when considering budget proposals and estimates of proposed expenditures.

However, as will be evident from some of the following comments in this section of the Report, we believe that the Statement and its contents could be improved from

the standpoint of clarity and presentation so as to achieve maximum disclosure of information for the benefit of Parliament and the public.

123. *Accounts receivable.* As explained in the quotation included in the preceding paragraph, taxes and other revenues receivable are not recorded as assets in the Statement of Assets and Liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding total at the close of the preceding year (other than with respect to balances receivable by the Taxation Division of the Department of National Revenue) is given in the several departmental sections of Volume II of the Public Accounts. There is, however, no one place in the Public Accounts where information regarding the departmental totals and the substantial over-all total of accounts receivable is available. We suggested in last year's Report that it would be informative to Parliament were an appendix giving this information included in the Public Accounts in future.

The following summary of accounts receivable includes the totals given in the departmental sections of the Public Accounts at March 31, 1963 together with totals of balances receivable as at February 28, 1963 by the Taxation Division, as provided to us by that Division:

Department	Current year	Previous Years		Total
		Collectable	Uncollectable	
Agriculture	\$ 1,184,198	\$ 736,331	\$ 36,322	\$ 1,956,851
Citizenship and Immigration ...	67,925	256,733	186,346	511,004
Defence Production	1,115	1,911	259,329	262,355
Finance	100,104	8,495	607	109,206
Justice	203,401	129	18,841	222,371
National Defence	4,266,901	2,170,985	217,913	6,655,799
National Health and Welfare ..	698,189	344,815	193,051	1,236,055
National Revenue—				
Customs and Excise Division	7,923,513*		2,229,997*	10,153,510
Taxation Division	160,637,394*		21,640,427*	182,277,821
Northern Affairs and National Resources	99,333	298,870	25,055	423,258
Public Works	713,797	200,324	140,536	1,054,657
Royal Canadian Mounted Police	311,405	10,904	24,489	346,798
Trade and Commerce	119,620	8,929	7,784	136,333
Transport	3,791,841	3,734,192	30,526	7,556,559
Veterans Affairs	3,817,265	2,420,500	800,216	7,037,981
Other departments	213,054	85,614	51,245	349,913
	<u>\$ 184,149,055</u>	<u>\$ 10,278,732</u>	<u>\$ 25,862,684</u>	<u>\$ 220,290,471</u>

* These totals relate to both current and previous years.

The accounts receivable totals shown in the above table were after writing off the following uncollectable debts of \$1,000 or less deleted from the accounts during the year under the authority of section 23 of the Financial Administration Act:

External Affairs	\$ 14,511
National Defence	22,318
National Revenue—	
Customs and Excise Division	328,797
Taxation Division	813,224
Transport	15,655
Veterans Affairs	95,867
Other departments	16,568
	<hr/>
	\$ 1,306,940
	<hr/>

It will be appreciated that whether accounts receivable are kept in memorandum form or recorded as an asset in the Statement of Assets and Liabilities, they are nonetheless debts due to the Crown, and their accurate recording and ultimate collection are primarily responsibilities of the departments concerned. While we have again found that most of the departments having extensive accounts receivable keep their records accurately and efficiently, this does not apply in the case of some departments where accounts receivable as such are not an important factor. We continue to believe, as was mentioned in last year's Report, this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to reduce the possibility of accounts being tampered with and collections misappropriated.

124. *Public Service Superannuation Account.* In paragraph 144 of last year's Report and also in earlier Reports reference was made to the extra-statutory "bookkeeping entries" aggregating \$450 million which were made in 1951-52 and 1960-61 in order to increase the balance at credit of the Public Service Superannuation Account to the amount of the currently estimated actuarial liability. The offsetting debits were recorded in an "asset" account captioned "deferred charge—unamortized portion of actuarial deficiency—public service superannuation account".

In the years 1951-52, 1952-53 and 1956-57 portions of the 1951-52 deferred charge of \$312 million (in the amounts of \$98 million, \$25 million and \$50 million, respectively) were written off to Expenditure, leaving a balance of \$139 million at March 31, 1957. This was increased to \$277 million in 1960-61, when a further entry was made to the credit of the Public Service Superannuation Account following the actuarial valuation made as of December 31, 1957.

In previous years' Reports, we have expressed the view that the Public Service Superannuation Account should have been credited (in addition to amounts contributed

by participants) only with amounts provided by section 32 of the Public Service Superannuation Act or by special parliamentary appropriations—and that the offsetting bookkeeping entries should not have been made. In our opinion the actuarial deficiency remaining after credits provided for by Parliament had been duly recorded should have been fully explained each year by means of a note to the Statement of Assets and Liabilities. In his Budget Speech of June 13, 1963, the Minister of Finance indicated his concern at the magnitude of the actuarial deficiency.

The amount of the actuarial deficiency is, in fact, considerably greater than the \$277 million indicated on the Statement of Assets and Liabilities. This amount continues to represent the estimated actuarial deficiency at December 31, 1957. However, in our 1961 Report (paragraph 59) reference was made to the fact that, as mentioned in a note to the Statement of Assets and Liabilities as at March 31, 1961, the balance was not adjusted to reflect the additional liability resulting from general salary and pay increases during 1960-61, estimated at \$80,700,000. Moreover, as mentioned in paragraph 52 of this Report, no account has been taken of the considerable (though not officially estimated) additional actuarial liabilities that arose between April 1, 1961 and March 31, 1963 as a result of salary and pay increases granted from time to time to substantial groups of Public Service employees.

Section 33 of the Public Service Superannuation Act, 1952-53, reads as follows:

"The Minister shall lay before Parliament at least once in every five years an actuarial report on the state of the Superannuation Account, containing an estimate of the extent to which the assets of the said Account are sufficient to meet the cost of the benefits payable under this Act."

The Act is silent as to the remedy to be applied when a deficiency is found to exist, and no proposal for dealing with the actuarial deficiency was made when the report on the last actuarial valuation was tabled in the House on June 20, 1960. We understand that a further actuarial valuation as at December 31, 1962 has been undertaken and is expected to be completed by March 1964.

125. *Canadian Forces Superannuation Account.* In the last three Reports, references have been made to the non-cash or bookkeeping entry of \$326,300,000 which gave credit to this Account in 1958-59, with an offsetting amount being charged to the "asset" account entitled "deferred charge—unamortized portion of actuarial deficiency—Canadian Forces Superannuation Account".

In 1962-63, following an actuarial valuation as of December 31, 1960, adjusted to March 31, 1963, a further bookkeeping credit of \$198,549,000 was made, with an offsetting charge to the "asset" account referred to above, bringing the additional amounts thus included in the balance at credit of the Account to a total of \$524,849,000.

The Audit Office view continues to be that amounts additional to contributions by members of the Forces should be credited to the Account only as provided for by Parliament—either under section 24 of the Canadian Forces Superannuation Act or by special appropriation. As in the case of the Public Service Superannuation Account

(paragraph 124) our view is that the actuarial deficiency remaining after recording credits provided for by Parliament should be explained each year by means of a note to the Statement of Assets and Liabilities.

126. *R.C.M.P. Benefit Trust Fund.* Comments were made in last year's Report (paragraph 146) and in that of the preceding year (paragraph 115) regarding the use made of this Fund.

The major outlay from the Fund during the year under review again took the form of a distribution to each member of the Force. Individual payments of \$35, compared with \$30 in the preceding year, accounted for a total of \$214,000 out of the gross expenditure of \$216,000. Although it had been expected that the Fund would be utilized to a greater extent for the making of loans and grants in appropriate circumstances, little demand for them has materialized and only \$315 was paid out on this basis during the year.

The Fund had a balance of \$392,510 at March 31, 1963. In addition to cash resources of \$240,230 on deposit with the Receiver General, and \$52,100 (par value) of Dominion of Canada bonds in like custody, assets included the \$98,350 balance of a loan to a members' recreational organization and \$1,830 in loans to individual members.

127. *Members of Parliament Retiring Allowances Account.* As forecast in paragraph 147 of the 1962 Report, disbursements from the Members of Parliament Retiring Allowances Account in 1962-63 exceeded receipts, resulting in a further reduction of \$133,000 in the balance of the Account which amounted to \$1,295,000 at March 31, 1963.

During the 1963-64 fiscal year substantial changes were made in the Members of Parliament Retiring Allowances Act, the effect of which has not yet become apparent.

Crown Corporations

128. Section 85 of the Financial Administration Act requires that each Crown corporation prepare, in respect of each financial year, a balance sheet, a statement of income and expense and a statement of surplus "containing such information as, in the case of a company incorporated under the Companies Act is required to be laid before the company by the directors at an annual meeting".

129. Section 87 of the Act requires the auditor of a Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the corporation, and the report is required to state whether, in his opinion:

- "(a) proper books of account have been kept by the corporation;
- (b) the financial statements of the corporation
 - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,

- (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and
- (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and
- (c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation."

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

130. Section 87 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and section 85 directs that such annual report be laid before Parliament by the appropriate Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume III of the Public Accounts.

131. Crown corporations are classed as "agency" or "proprietary" in Schedules "C" and "D" to the Financial Administration Act. Those in the former class are responsible, in general, for the management of procurement, construction, service or disposal activities on behalf of the Crown. Those in the latter class are responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.

132. The Auditor General is the auditor of the following Crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1963:

<u>Corporation</u>	<u>Class</u>	<u>Reporting Minister</u>
Atomic Energy of Canada Limited	Agency	Defence Production
Canadian Arsenals Limited	Agency	Defence Production
Canadian Broadcasting Corporation	Proprietary	Secretary of State
Canadian Commercial Corporation	Agency	Defence Production
Canadian National (West Indies) Steamships Limited	Agency	Transport
Canadian Overseas Telecommunication Corporation	Proprietary	Transport
Canadian Patents and Development Limited	Agency	Defence Production
Cornwall International Bridge Company Limited	Proprietary	Transport

<u>Corporation</u>	<u>Class</u>	<u>Reporting Minister</u>
Crown Assets Disposal Corporation	Agency	Defence Production
Defence Construction (1951) Limited	Agency	Defence Production
Eldorado Aviation Limited	Proprietary	Trade and Commerce
Eldorado Mining and Refining Limited	Proprietary	Trade and Commerce
Export Credits Insurance Corporation	Proprietary	Trade and Commerce
Farm Credit Corporation	Proprietary	Agriculture
The National Battlefields Commission	Agency	Northern Affairs and National Resources
National Capital Commission	Agency	Public Works
National Centennial Administration	Agency	President of the Privy Council
National Harbours Board	Agency	Transport
Northern Canada Power Commission	Agency	Northern Affairs and National Resources
Northern Ontario Pipe Line Crown Corporation		Trade and Commerce
Northern Transportation Company Limited	Proprietary	Trade and Commerce
Park Steamship Company Limited	Agency	Transport
Polymer Corporation Limited and subsidiary companies	Proprietary	Defence Production
The St. Lawrence Seaway Authority	Proprietary	Transport

Those companies for which the reporting Minister is shown above as the Minister of Defence Production are now reported upon to the House of Commons by the Minister of Industry.

The Canadian World Exhibition Corporation was established on December 20, 1962. Its accounts will be audited and reported upon for the first time for the period from December 20, 1962 to December 31, 1963.

133. Since the Auditor General has not been appointed the auditor of the following Crown corporations and other similar public instrumentalities, their accounts were not examined by him during the year under review:

<u>Corporation or Instrumentality</u>	<u>Class</u>	<u>Reporting Minister</u>
Bank of Canada		Finance
Canadian National Railways	Proprietary	Transport
The Canadian National Railways Securities Trust	Proprietary	Transport
The Canadian Wheat Board		Trade and Commerce
Central Mortgage and Housing Corporation	Proprietary	Public Works
Industrial Development Bank		Finance
Trans-Canada Air Lines	Proprietary	Transport

134. The paragraphs that follow treat, in turn, with the various corporations audited by the Auditor General. In each case, an introductory comment describes briefly the origin of the corporation and the nature of its activity, and this is followed by comments regarding the Crown's equity in the corporation, a summary of the operations for the financial year in comparison with the preceding year, and any other matter which it is felt might be of interest to the House of Commons.

135. *Atomic Energy of Canada Limited*. This company was incorporated in 1952 under the Companies Act, 1934 pursuant to the authority contained in the Atomic Energy Control Act, R.S., c. 11, to carry out research and development in nuclear power technology and allied fields and to promote uses of atomic energy.

The head office of the company is in Ottawa. Nuclear reactors and major research and development laboratories are maintained at Chalk River, Ontario. A Commercial Products Division, located in Ottawa, is responsible for the sale of beam therapy units, radio-active isotopes and other allied products. A Nuclear Power Plant Division is situated in Toronto and has responsibility for the administration, design, engineering and procurement services for the Douglas Point nuclear power station located on the shore of Lake Huron. In addition, this Division co-ordinates all the research and development contracts which the company places with Canadian industry. At the year-end there were 162 of these contracts placed with 33 firms.

A nuclear power demonstration plant at Rolphton, Ontario, was completed and put into operation during the year. This plant was built as a joint project of Atomic Energy of Canada Limited, the Hydro-Electric Power Commission of Ontario and Canadian General Electric Company Limited, and was built to demonstrate the Canadian type of nuclear power reactor. The Crown company's share of the costs of this project amounted to \$25,537,000. This includes \$724,000 spent on a design concept which was not used for the reactor, as constructed, and consequently the company's share of the plant is recorded in its accounts at a cost of \$24,813,000.

At the year-end the company had under construction a nuclear research establishment in the Whiteshell area, near Winnipeg, and a nuclear power station at Douglas Point. The cost of the research establishment (\$8,693,000) is being financed by parliamentary appropriations and the cost of the power station (\$19,811,000) by Government of Canada loans.

The Crown's equity in the company at March 31, 1963 totalled \$55,336,000, comprising: loans for housing, \$5,667,000; loans for construction of Douglas Point generating station, \$19,281,000; capital stock, \$54,000,000; and retained earnings, \$1,627,000—less the depreciated value of the NRU reactor (\$25,239,000) which was written off during the year, as authorized by the Special Appropriation Act, 1963 (Atomic Energy Vote 16).

A comparative summary of income and expense for the past two years follows:

<u>Research Program—Operating</u>	<u>Year ended March 31</u>	
	<u>1963</u>	<u>1962</u>
Expense—		
Research and development	\$ 8,792,000	\$ 8,456,000
Operation of research facilities	1,795,000	1,597,000
Engineering services	3,870,000	3,770,000
Engineering design and applied development	1,497,000	1,393,000
Nuclear power plant	9,125,000	7,060,000
Administration	3,159,000	3,011,000
Other	2,289,000	1,886,000
	<u>30,527,000</u>	<u>27,173,000</u>
Income: Gross income from housing, hospital, transportation, etc. . .	1,896,000	1,438,000
	<u>1,896,000</u>	<u>1,438,000</u>
Excess of expense over income	<u>\$28,631,000</u>	<u>\$25,735,000</u>
Provided for by:		
Parliamentary appropriation	\$28,646,000	\$25,756,000
Less: Unexpended balance refundable to the Government of Canada	15,000	21,000
	<u>\$28,631,000</u>	<u>\$25,735,000</u>
<u>Research Program—Capital</u>		
Expense: Construction of buildings and acquisition of equipment . . .	\$ 9,349,000	\$ 9,223,000
Provided for by:		
Parliamentary appropriation	\$ 8,431,000	\$ 8,198,000
Retained earnings	918,000	1,025,000
	<u>\$ 9,349,000</u>	<u>\$ 9,223,000</u>
<u>Commercial Operations</u>		
Income—		
Sales	\$ 3,803,000	\$ 3,878,000
Rentals, etc.	159,000	196,000
	<u>3,962,000</u>	<u>4,074,000</u>
Expense—		
Cost of sales, etc.	1,858,000	2,178,000
Research and development	652,000	444,000
Selling	863,000	760,000
Administrative	373,000	374,000
	<u>3,746,000</u>	<u>3,756,000</u>
Excess of income over expense, credited to retained earnings	<u>\$ 216,000</u>	<u>\$ 318,000</u>

The sale of materials irradiated in the NRU reactor and the related costs are subject to a classified international agreement and are, therefore, not reflected in the above summary.

The rise of \$3,354,000 during 1962-63 in research operating expenses was largely due to increases in: salaries and wages, including welfare benefits, \$766,000; materials and supplies, \$1,221,000; professional and special services, \$1,553,000; less a decrease of \$897,000 in contractual expenditures. The increase in salaries and wages resulted from an increase in the number of personnel employed, together with increased remuneration granted under union contracts. The commissioning and putting into operation of the nuclear power demonstration plant at Rolphoton necessitated materials and supplies not heretofore required, plus additional professional and other services resulting in the marked increase in the cost of these items. In previous years one of the contractual expenditures of the research operating program was a "grant" of \$215,000 to the company's Commercial Products Division. This policy was discontinued during 1962-63 and the decrease in expenditures under contracts is partly due to discontinuation of this "grant", as well as to the termination of payments under contracts upon completion of the nuclear power demonstration plant.

The annual parliamentary appropriations for the Research Operating Program take into consideration credits for income arising from housing, hospital, transportation, etc. On the other hand, income incidental to the operation of research facilities and profits on disposal of plant, property, etc., is credited to Retained Earnings Account instead of to the annual appropriations for the Research Capital Program. However, the company supplements these appropriations by funds from retained earnings, and the amounts of the appropriations take into consideration undertakings on the part of the company to provide such funds. The balance of the Retained Earnings Account at March 31, 1963 amounted to \$1,627,000 and the company has undertaken to supplement the appropriations for the Research Capital Program by this amount over the next two years.

136. *Canadian Arsenals Limited*. This company was incorporated in 1945 under the Companies Act, 1934, pursuant to authority contained in the Department of Reconstruction Act, 1944, c. 18. The main objects of the company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and equipment, including the maintenance of physical facilities and manufacturing skills so that the operations could be expanded on short notice.

At the year-end the company, with its head office in Ottawa, was the custodian of nine Crown-owned plants constructed at a cost in excess of \$100 million. Eight of these plants were maintained in partially stand-by condition and one was idle.

Funds totalling \$392,000 were provided by the Department of Defence Production under authority of parliamentary appropriations and Governor General's special warrants towards construction, improvements and equipment acquired by the company during 1962-63. Actual capital expenditures during the year amounted to \$383,000 and the unexpended balance of \$9,000 has been refunded.

At March 31, 1963 the company's operations were financed by advances of \$1,150,000 from the Department of National Defence in respect of orders placed (reduced from \$4,648,000 at March 31, 1962), advances of \$2,250,000 from the Department of Defence Production Revolving Fund (reduced from \$5,000,000 at March 31, 1962) and advances

of \$7,500,000 from the Minister of Finance for working capital (unchanged from March 31, 1962).

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1963	1962
Income—		
Sales	\$16,975,000	\$22,936,000
Miscellaneous	815,000	503,000
	<u>17,790,000</u>	<u>23,439,000</u>
Expense—		
Cost of sales, including indirect labour and other overhead expenses absorbed	15,310,000	20,250,000
Indirect labour and other overhead expenses not absorbed in cost of sales	5,863,000	5,318,000
Administrative expenses	818,000	911,000
	<u>21,991,000</u>	<u>26,479,000</u>
Excess of expense over income	<u>\$ 4,201,000</u>	<u>\$ 3,040,000</u>

Except for a minor increase in 1961-62 over 1960-61, there has been a steady decline in sales over the past eight years, from \$81 million for the year ended March 31, 1955 to \$17 million for the year ended March 31, 1963. The reduced level of sales, coupled with the company's obligation to maintain the Crown-owned plants in partial stand-by condition, has necessitated funds being appropriated by Parliament towards the cost of administration and operation of the company. During the year under review a total of \$4,216,000 was provided by the Department of Defence Production for this purpose through parliamentary appropriations and Governor General's special warrants. Since the excess of expense over income for the year ended March 31, 1963 amounted to \$4,201,000, a balance of \$15,000 remained at the year-end and was refunded in May 1963.

Indirect labour and overhead expenses for the year totalled \$10,853,000 (compared with \$11,238,000 for the previous year) of which \$4,990,000 was included in cost of sales. It has been the company's practice to calculate this portion of overhead expenses on direct labour costs at rates which theoretically would have absorbed all overhead expenses if all plants had been operating on a normal one-shift basis. The extent to which these rates were not sufficient to recover overhead costs, \$5,863,000, shown in the above table as indirect labour and other overhead expenses not absorbed in cost of sales, can be largely attributed to idle capacity of production facilities.

Inventories of raw materials, work in process and finished goods were reduced by \$5,027,000 or 48% from their level at March 31, 1962. The inventory reduction includes write-offs of \$334,000, of which \$32,000 was for products rejected in the previous year.

Reference was made in last year's Report to the fact that a firm of management consultants, engaged in November 1960 by the Department of Defence Production to

undertake a study of the organization of the company, the efficiency and cost of its manufacturing operations and other aspects of its activities, had submitted its report and that this was under review by the management. During the year under review a number of the recommendations made by the consultants were implemented, while others were still under study.

137. *Canadian Broadcasting Corporation.* The Canadian Broadcasting Corporation, established by the Canadian Broadcasting Corporation Act, 1936, c. 24, superseded by the Broadcasting Act, 1958, c. 22, operates the national television and radio broadcasting services and also administers an international shortwave service on behalf of the Government of Canada. The head office of the Corporation is in Ottawa, with regional offices in St. John's, Halifax, Montreal, Ottawa, Toronto, Winnipeg and Vancouver and an engineering headquarters in Montreal.

The Corporation derives its funds for operating requirements in excess of advertising revenue and also funds for its capital requirements from grants provided through parliamentary appropriations.

At March 31, 1963 the Crown's equity in the Corporation amounted to \$42,798,000, an increase of \$1,772,000 over the equity of \$41,026,000 at the close of the preceding year.

The following is a comparative summary of the results of operations for the last two financial years:

	Year ended March 31	
	1963	1962
Expense—		
Cost of production and distribution		
Cost of programs	\$70,005,000	\$68,361,000
Network distribution	10,146,000	10,062,000
Station transmission	4,030,000	3,893,000
Payments to private stations	4,335,000	4,851,000
Commissions to agencies and networks	3,872,000	4,620,000
	92,388,000	91,787,000
Operational supervision and services	8,427,000	8,843,000
Selling and general administration	7,269,000	6,968,000
Emergency broadcasting	282,000	13,000
Total expense (including depreciation)	108,366,000	107,611,000
Income—		
Advertising revenue	31,403,000	33,320,000
Net expense	\$76,963,000	\$74,291,000

The "grant in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service", \$72,655,000, comprising net expense of \$76,963,000 shown above, less depreciation of \$4,308,000 charged for cost ascertainment purposes, was provided by parliamentary appropriations to the extent of \$61,661,000 and by Governor General's special warrants to the extent of \$11,583,000. The unexpended portion of \$589,000 was refunded to the Receiver General in May 1963.

The net expense for the year under review increased by \$2,672,000 over the net expense for the preceding year, \$1,917,000 of the increase being attributable to decreased advertising revenue and \$755,000 to increased expense. Continuing competition from independent television stations and increased competition from a private television network were the main reasons for the decrease in advertising revenue. An increase of \$2,362,000 in salaries and wages, which more than accounted for the overall increase in expense, was mainly due to salary increases required by collective bargaining agreements. An increase in the number of employees during the first four months of the fiscal year was more than offset by subsequent reductions and at March 31, 1963 the Corporation had 179 fewer employees than at the end of the preceding year.

The following inventory balances at March 31, 1963 are compared with the corresponding balances at March 31, 1962:

	March 31		Increase
	1963	1962	
Engineering and production supplies	\$ 1,646,000	\$ 1,569,000	\$ 77,000
Programs completed and in process of production	3,589,000	3,341,000	248,000
Prepaid film rights	1,705,000	1,514,000	191,000
Prepaid script rights	172,000	143,000	29,000
	<u>\$ 7,112,000</u>	<u>\$ 6,567,000</u>	<u>\$ 545,000</u>

The bulk of the inventory of programs completed and in process of production continued to be in Toronto and Montreal, for the English and French networks respectively, and included programs recorded in advance of broadcast on videotape (\$2,277,000) and film (\$1,176,000). Of the \$1,705,000 of prepaid film rights, \$1,363,000 or 80% was in the Quebec region, where the limited supply of French language film available in Canada necessitated the acquisition of rights in advance of normal requirements.

The inventory balances shown in the above tabulation are after giving effect to the following write-offs:

Programs completed and in process of production abandoned and cancelled because of performer or technical deficiencies or changes in programming	\$ 115,000
Film rights expired and not telecast because of changes in programming or unsuitable because of program content	73,000
Script rights expired or unsuitable	64,000
Engineering and production supplies unusable and obsolete	3,000
	<u>\$ 255,000</u>

The comparable write-offs in the previous year totalled \$1,159,000 which included \$701,000 of stationery, technical and production supplies on hand and which were charged directly as expense at March 31, 1962 in keeping with the Corporation's decision to charge these classes of supplies as expense when purchased rather than when used, as had been the previous practice.

The capital requirements of the Corporation, amounting to \$6,600,000, were provided to the extent of \$6,050,000 by parliamentary appropriations and \$550,000 by Governor General's special warrant. With capital expenditure during the year amounting to \$6,390,000 the unexpended balance of \$210,000 was refunded to the Receiver General in May, 1963.

During the last four years, \$3,802,000 was spent in connection with the consolidation of facilities in Toronto, Montreal and Ottawa. A note to the financial statements at March 31, 1963 sets out that the present estimate of the cost of consolidation of facilities at these locations would be \$83,058,000 of which, subject to the provision by Parliament of annual appropriations for the purpose, \$1,597,000 would be expended during the year ending March 31, 1964 and the balance during the four years ending March 31, 1968.

In the Reports for the past two years we drew attention to a recommendation contained in our report to the Board of Directors for the year ended March 31, 1960 that a useful purpose might be served by having the Corporation's organizational structure in terms of its present size, complexity and cost made the subject of a study by independent management consultants working in co-operation with the Audit Office. A study along these lines was made by the Royal Commission on Government Organization, and the results were contained in Report 19, Volume 4 of its Reports released on April 17, 1963. The Commissioners stated that, while they had not undertaken the detailed investigation and appraisal which may have been contemplated, their Report was proposing guidelines and criteria which, subject to government decisions on policy, should permit the Corporation to adjust its internal organization and operations to management and performance needs. Several of the Commissioners' comments, particularly those relating to financial administration, dealt with matters which had been the subject of critical comment in our 1960 report, and we found that a number of these matters had, in the meantime, been remedied. These comments made by the Commissioners have been reviewed with the President and senior officers of the Corporation who have stated that further remedial action would be undertaken.

138. *Canadian Commercial Corporation.* This Corporation, which was established in 1946 under the Canadian Commercial Corporation Act, now R.S., c. 35, provides procurement services in Canada for the governments of other countries and for international organizations. The Corporation's main customer is the United States Government, although a considerable volume of purchasing of Canadian-made goods is carried out on behalf of the Department of External Affairs' External Aid Office for Colombo Plan projects. Some \$153 million of suppliers' invoices were processed by the Corporation on behalf of its customers, during the year under review, in comparison with \$107 million in the preceding year.

At the year-end the equity of the Government of Canada in the Corporation was \$9,899,177 represented by a \$9.5 million working capital advance and an accumulated surplus of \$399,177.

The Corporation's operating budget for 1963-64 estimates a loss of \$390,000; therefore, it is assumed that by the end of the 1963-64 fiscal year the surplus will be almost depleted. A Board of Directors' minute of March 19, 1963 noted that the operating deficit

for the financial year 1964-65 should be covered by a Department of Defence Production vote and that the Department will be asked to provide an amount for this purpose in its estimates for that year.

The following is a comparative summary of the operations of the Corporation for the past two years:

	Year ended March 31	
	1963	1962
Expense—		
Salaries and living expenses	\$ 381,000	\$ 331,000
Other expense	110,000	87,000
	<u>491,000</u>	<u>418,000</u>
Income—		
Purchase surcharges	127,000	108,000
Interest earned	119,000	66,000
Exchange gain	8,000	62,000
Other income	1,000	6,000
	<u>255,000</u>	<u>242,000</u>
Net loss	<u>\$ 236,000</u>	<u>\$ 176,000</u>

The increase in salaries and living expenses was due to the cost of additional staff required to process the increased volume of business and to a general salary increase retroactive to October 1, 1961. The increase in interest earned resulted from an increase in funds available for short-term investment while the decrease in exchange gain resulted from the fact that in the previous year a substantial gain resulted from the sale of United States funds.

In last year's Report it was noted that the Department of Defence Production had been providing purchasing and accounting services free of charge to the Corporation since 1951. This arrangement was continued in the year under review. In addition, as a result of a reorganization during the year for the purpose of improving the services rendered on export contracts, 31 engineers and purchasing officers were loaned to the company without charge by the Department of Defence Production and Defence Construction (1951) Limited.

139. *Canadian National (West Indies) Steamships, Limited.* The active operations of this company ceased in 1958 on the sale of its fleet of eight vessels to Cuban interests, and its activities are now confined to the winding-up of its affairs. The head office of the company is in Ottawa and its residual functions are being performed by staff of the Canadian Maritime Commission.

During the year, by Supplementary Letters Patent, 16,390 of the company's 16,400 outstanding shares were cancelled. Paid-up capital represented by the cancelled stock

amounted to \$1,599,000. Payments to the Government of Canada, by the transfer to the Minister of Finance of \$725,000 on deposit with the Receiver General and a remittance of \$550,000, reduced the undistributed capital to \$324,000 at December 31, 1962.

The sum of \$60,000 was received in war claims during the year and \$12,000 of interest was earned on deposits and agreement of sale. Expenditures, comprising settlement of claims and legal expenses with respect to these claims, amounted to \$5,000.

The Crown's equity in the company at December 31, 1962 amounted to \$468,000 represented by the following:

Cash	\$ 26,000
Balance due under agreement of sale of vessels including accrued interest	456,000
	<hr/>
	482,000
Less: Matured bonds, unclaimed	14,000
	<hr/>
	\$ 468,000
	<hr/>

An outstanding claim of \$59,000, filed with the War Claims Commission in respect of a loss due to enemy action, was not recorded on the balance sheet of the company as a receivable at the year-end since the amount of any further recovery is dependent on the adequacy of the War Claims Fund. On the other hand, no provision was made for a possible liability, estimated at approximately \$50,000, in respect of legal claims filed or pending for damages resulting from the company's operations in past years.

140. *Canadian Overseas Telecommunication Corporation.* The objects of this Corporation, established in 1949 by the Canadian Overseas Telecommunication Corporation Act, now R.S., c. 42, are: to establish, maintain and operate external telecommunication services for the conduct of public communications; to carry on the business of public communications; to improve the efficiency of telecommunication services generally; and to co-ordinate Canada's external telecommunication services with those of other parts of the Commonwealth. To these ends the Corporation, in 1950, acquired the external telecommunication facilities in Canada of Cable and Wireless Limited and Canadian Marconi Company Limited. The acquisition of these facilities provided cable and radio-telegraph circuits between Canada, Britain, Australia, New Zealand, New York and St. Pierre and Miquelon, and radio-telephone services with Britain and the West Indies. The more recent of many major subsequent developments include the following: the bringing into service in January 1963 of the cable system between Canada, Greenland and Iceland, with extensions to Britain and Europe; the acquisition of the right of use of an appropriate number of circuits in a cable between the United States and Jamaica and an extension to Montreal to provide service between Canada and Jamaica, beginning in February 1963; and the joint agreement with Britain, Australia and New Zealand to construct the Commonwealth Pacific Cable System between Canada and Australia and New Zealand which is to be brought into service in December 1963.

The equity of the Crown in the Corporation amounted to \$56,947,000 at March 31, 1963, an increase of \$13,411,000 over the equity at the end of the previous year, and comprised \$49,321,000 of advances for capital purposes and \$7,626,000 of accumulated surplus.

Loans to finance, in part, the capital requirements of the Corporation are provided by parliamentary appropriations. Capital additions during the year amounted to \$17,781,000 towards which \$13,000,000 was advanced by the Crown and \$4,781,000 was provided out of accumulated earnings. At March 31, 1963 the estimated cost of completing approved capital projects was approximately \$23,400,000 of which \$14,400,000 related to the year ending March 31, 1964.

The following is a summary of the income and expense of the Corporation for the last two years:

	Year ended March 31	
	1963	1962
Income—		
Telephone, telegraph, telex, circuit rentals, etc.	\$12,321,000	\$ 9,484,000
Expense—		
Salaries, wages and employee benefits	2,591,000	2,304,000
Depreciation	2,376,000	1,709,000
Rental of circuits, etc.	1,377,000	1,135,000
Interest	1,339,000	921,000
Operation, maintenance and repairs—buildings, plant and equipment	1,051,000	789,000
Other	517,000	373,000
	9,251,000	7,231,000
Less: Estimated amount recoverable from Commonwealth Network	1,025,000	1,164,000
	8,226,000	6,067,000
	4,095,000	3,417,000
Deduct: Cost of additional pension benefits	116,000	94,000
	3,979,000	3,323,000
Profit before income tax	1,971,000	1,658,000
Deduct: Income tax		
Net profit	\$ 2,008,000	\$ 1,665,000

Income increased by \$2,837,000 or approximately 30% over that of the previous year, the same percentage of increase as was recorded last year. The increase for the year under review is largely the result of greater revenue from circuit rentals, although revenue realized from telegraph, telephone and telex services also increased substantially.

The \$1,040,000 of cash and investments which was formerly held in trust for actuarial deficiencies in pension funds for employees participating in pension plans of a

predecessor company was distributed during the year. Following payment of \$499,000 into the pension fund of the predecessor company in respect of former employees who are in receipt of pensions and those employees who elected to continue under the predecessor company's pension plan, the balance of \$541,000 was transferred to the Public Service Superannuation Account of the Government of Canada, in accordance with the Regulations respecting the Transfer of Pensions of Employees of the Canadian Overseas Telecommunication Corporation as set forth in Order in Council P.C. 1961-1556 of October 26, 1961.

141. *Canadian Patents and Development Limited.* Section 17 of the Research Council Act, R.S., c. 239, provides for the incorporation of one or more companies by the National Research Council for the purpose of exercising certain of the powers conferred upon the Council. Under this authority Canadian Patents and Development Limited was incorporated in 1947 under the Companies Act, 1934, for the purpose of making available to industry, through licensing arrangements, the inventions and new processes developed by the Council. The services of the company, which is located in Ottawa, are available to government departments, publicly supported institutions and universities.

The following summary shows the results of the company's operations for the year ended March 31, 1963 compared with the preceding year:

	Year ended March 31	
	1963	1962
Income—		
Royalties, licensing fees, etc.	\$ 554,000	\$ 277,000
Less: Costs of licensing rights and related technical assistance, etc.	63,000	12,000
	491,000	265,000
Other income	24,000	14,000
	<u>515,000</u>	<u>279,000</u>
Expense—		
Salaries	29,000	27,000
Services provided by National Research Council	36,000	30,000
Patent attorneys' fees and other patent expense	55,000	33,000
Awards to inventors	19,000	14,000
Other expenses	10,000	33,000
	<u>149,000</u>	<u>137,000</u>
Net profit for the year	\$ 366,000	\$ 142,000

The increased income from royalties, licensing fees, etc., is largely attributable to one licence. Two other licences, while contributing to the increased income, were mainly responsible for the greater part of the increased cost of licensing rights and related

technical assistance, etc. The increased cost of patent attorneys' fees and other patent expense was largely due to an expenditure of \$14,000 for the filing of patent applications on a device in a number of countries. The item for "other expenses" shows a significant decrease because the preceding year's figure included a grant of \$25,000 to a university, for applied research, referred to in last year's Report.

The net profit of \$366,000 for the year resulted in a corresponding increase in the Crown's equity in the company which, at March 31, 1963, was \$820,000, comprising capital stock of \$296,000 and surplus of \$524,000.

When approving the company's 1962-63 operating budget, the Minister of Finance, while recognizing the value of grants to persons carrying out applied research at universities in fields from which the company had or might derive patent rights, expressed the opinion that for 1962-63 and future years "more emphasis should be placed on the development of products and techniques that the company is already in a position to lease on a royalty basis to private industry". As a result, during the year under review no grants were made for the carrying out of applied research at universities. However, the company initiated a program of assistance to Canadian industry in establishing new processes and at March 31, 1963 there were outstanding commitments of approximately \$32,000 in connection with this program.

142. *Cornwall International Bridge Company Limited*. This company was incorporated in 1949 under the Companies Act, 1934, by private shareholders, for the purpose of operating a toll highway over the St. Lawrence River between Cornwall, Ontario, and Rooseveltown, New York, on railway bridges leased from two railway companies. These railway bridges were acquired by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a wholly-owned United States corporation) in connection with the construction of the Seaway. In 1957, all of the outstanding stock of the bridge company was purchased jointly by the Seaway entities for \$480,000, of which \$200,000 was paid by the Authority.

This international bridge system now uses new facilities constructed by the Seaway entities. The low-level railway bridges were replaced by a high-level South Channel span in 1958 and by a high-level North Channel span in 1962.

In June 1962, the Seaway entities agreed to discontinue the operation of the toll bridge by the bridge company and to assign the operating responsibility to a wholly-owned subsidiary of the Authority to be incorporated under section 24A of the St. Lawrence Seaway Authority Act. On July 3, 1962, pending incorporation of the subsidiary, the Bridge Division of the Authority took over the operation of the bridge system and on January 1, 1963 The Seaway International Bridge Corporation, Ltd. took over operations on the same terms as were in effect for the Cornwall International Bridge Company Limited which is now in the process of winding up its affairs.

By agreement between the seaway entities the annual revenues of the company have been applied in the following order of priority:

- (i) in payment of all operating, administrative and general expenses of the bridge company;

- (ii) in amortization of the costs of constructing the North Channel bridge by the Authority, plus interest, over a period of fifty years; and
- (iii) the balance distributed on a fifty-fifty basis between the Authority and the Corporation.

A summary of the operations of the company for its past two financial years follows:

	Year ended September 30	
	1962	1961
Income—		
Bridge tolls	\$ 210,000	\$ 348,000
Other	2,000	3,000
	<u>212,000</u>	<u>351,000</u>
Expense—		
Salaries and wages	36,000	49,000
Maintenance and repairs	31,000	25,000
Rental of toll collection machines	10,000	13,000
Advertising	25,000	2,000
Other	35,000	52,000
	<u>137,000</u>	<u>141,000</u>
Provision for amortization of cost of North Channel bridge owned by The St. Lawrence Seaway Authority	75,000	130,000
	<u>212,000</u>	<u>271,000</u>
Fee for management, use of right-of-way over bridges, etc., payable to The St. Lawrence Seaway Authority (50% in trust for the Saint Lawrence Seaway Development Corporation)	—	\$ 80,000

As the company ceased operations on July 2, 1962 the figures shown for the year ended September 30, 1962 cover an operating period of only nine months, in comparison with a full period of twelve months in the previous year.

Prior to or in the course of the winding up process, the company disposed of land, buildings and equipment at a loss of \$10,000 and made provision in the accounts for a loss of \$52,000 expected to be realized from the proposed conveyance to municipalities of title to a bridge and roads.

After giving effect to these adjustments, which involved charges to surplus account, the shareholders' equity in the company at September 30, 1962 amounted to \$48,000, comprising \$50,000 of capital stock less a deficit of \$2,000.

143. *Crown Assets Disposal Corporation.* In 1944 the Surplus Crown Assets Act established the War Assets Corporation, which, by a 1949 amendment to the Act, became the Crown Assets Disposal Corporation. With certain specified exceptions, the Corporation is responsible for the disposal of the surplus assets of all government departments

and most of the Crown corporations and agencies. Also, the Corporation has entered into agreements with Britain and the United States whereby it disposes of surplus property of these countries located in Canada. The Corporation's head office is located in Ottawa and sales offices are maintained in a number of other cities throughout Canada.

As in the preceding year, the Corporation was authorized by the Governor in Council to retain 4% of the net proceeds of sales and other moneys received from sales of lands and buildings, and 10% of the net proceeds of all other sales, to meet its administrative and other expenses. A summary of the income and expense of the Corporation for the year ended March 31, 1963, together with the comparable figures for the previous year, follows:

	Year ended March 31	
	1963	1962
Income—		
Percentage of net proceeds of sales made and of other income earned, etc.	\$ 755,000	\$ 955,000
Expense—		
Salaries	450,000	427,000
Employees' welfare benefits	44,000	44,000
Rent	53,000	51,000
Telephone, telegrams and postage	27,000	28,000
Printing, stationery and office supplies	22,000	26,000
Travel	14,000	12,000
Other expenses	10,000	12,000
	620,000	600,000
Excess of income over expense	\$ 135,000	\$ 355,000

The \$200,000 decrease in income is largely explained by the fact that during the previous year there were several exceptional sales at substantial prices—to which reference is made below—from which the Corporation derived considerable income through the retention of the usual percentage of net proceeds of sales.

The \$23,000 increase in salaries was due to adjustments in the salaries of certain employees commensurate with increases granted to comparable classes in the civil service. There were 99 employees at March 31, 1963, the same number as at the close of the preceding year.

Pursuant to section 81 of the Financial Administration Act, the Corporation was directed to pay to the Receiver General, as of March 31, 1959, and from time to time thereafter but at intervals of not longer than six months, all of its surplus in excess of \$100,000. The \$135,000 excess of income over expense for the year under review was, in consequence, paid to the Receiver General, leaving the surplus balance unchanged at \$100,000.

The equity of the Crown at March 31, 1963 in the Corporation's agency account was \$5,884,000, compared with \$7,242,000 at the end of the preceding year, and was largely represented by amounts receivable under long-term interest-bearing sales agreements totalling \$5,764,000.

The transactions in the agency account during the year ended March 31, 1963, compared with the previous year, are summarized as follows:

	Year ended March 31	
	1963	1962
Proceeds from sales, etc.		
Government of Canada	\$ 7,790,000	\$12,355,000
Other principals	823,000	631,000
Interest earned	268,000	243,000
	<hr/>	<hr/>
	8,881,000	13,229,000
Less: Direct costs relating to sales	29,000	39,000
	<hr/>	<hr/>
	8,852,000	13,190,000
	<hr/>	<hr/>
Deduct:		
Percentage of net proceeds from sales, etc., retained by the Corporation	755,000	955,000
Remittances to Receiver General of Canada	8,715,000	9,355,000
Other remittances	745,000	556,000
	<hr/>	<hr/>
	10,215,000	10,866,000
	<hr/>	<hr/>
Increase (decrease) in equity:		
Government of Canada	(1,358,000)	2,313,000
Others	(5,000)	11,000
	<hr/>	<hr/>
	(\$1,363,000)	\$ 2,324,000
	<hr/>	<hr/>

During the year ended March 31, 1962, as previously mentioned, there were several exceptional sales of surplus assets at substantial prices. These sales included the former gun plant at Longueuil, \$1,400,000, and a former R.C.A.F. station at Lachine, \$2,300,000. The absence of such exceptional sales during the year under review accounts for a substantial part of the decrease of \$4,565,000 in proceeds from sales on behalf of the Government of Canada.

144. *Defence Construction (1951) Limited.* This Crown-owned agency was incorporated in 1951 under the Companies Act, 1934, pursuant to the authority in section 7 of the Defence Production Act, now R.S., c. 62. The company is responsible for the awarding and supervision of contracts for defence construction projects, for which funds are provided by the department initiating a project, or by the United States government for projects undertaken on its behalf. During the year ended March 31, 1963 approximately \$72 million was spent on such projects, compared with some \$86 million during the preceding year.

Funds to cover the company's operating expenses are provided annually by means of a Department of Defence Production appropriation. The following is a comparative summary of the operating results for the past two years:

	Year ended March 31	
	1963	1962
Expense—		
Salaries and living allowances	\$ 2,575,000	\$ 2,683,000
Travel and removal	246,000	302,000
Employees' welfare benefits	181,000	190,000
Other expenses	265,000	315,000
	<u>3,267,000</u>	<u>3,490,000</u>
Income—		
Reimbursement for engineering and administrative services	45,000	27,000
Other income	1,000	3,000
	<u>46,000</u>	<u>30,000</u>
Net expense	<u>\$ 3,221,000</u>	<u>\$ 3,460,000</u>

The completion of several major projects during the year and a decrease in the number of new contracts awarded, accompanied by a reduction in staff, accounted for the decrease in expense.

145. *Eldorado Aviation Limited*. This company, which is a wholly-owned subsidiary of Eldorado Mining and Refining Limited, was incorporated in 1953 under the Companies Act. Operating from headquarters in Edmonton, the company provides air transportation services on behalf of the parent company and Northern Transportation Company Limited, another subsidiary of Eldorado Mining and Refining Limited. These two companies share the cost of operations of Eldorado Aviation Limited on a "cost per ton-mile" basis.

The equity of Eldorado Mining and Refining Limited at December 31, 1962 amounted to \$256,000 comprising capital stock of \$28,000 and surplus of \$228,000.

The following is a comparative summary of the net expenses of the company for its last two financial years:

	Year ended December 31	
	1962	1961
Salaries, wages and contributions to employees' pension plan	\$ 251,000	\$ 263,000
Supplies	134,000	180,000
Repairs	81,000	88,000
Depreciation	59,000	92,000
Insurance	50,000	63,000
Other	64,000	63,000
	<u>639,000</u>	<u>749,000</u>
Total expenses	639,000	749,000
Less: Miscellaneous income	30,000	10,000
Net expenses	<u>\$ 609,000</u>	<u>\$ 739,000</u>

The net expenses for 1962 were recovered from Eldorado Mining and Refining Limited to the extent of \$494,000 and from Northern Transportation Company Limited to the extent of \$115,000. The decreased expenses in 1962 result from a substantially reduced volume of service provided. Traffic in southbound air-freight, which was reduced in 1961 due to the shut-down of the Port Radium mine of Eldorado Mining and Refining Limited in 1960, was further reduced in 1962 when deliveries from the Beaverlodge mine near Uranium City, Saskatchewan, also fell significantly.

146. *Eldorado Mining and Refining Limited.* This company was incorporated in 1945 under the Companies Act, 1934, following expropriation by the Government of Canada in 1944 of the shares of a privately-owned company incorporated in 1927. The head office of the company is in Ottawa, the Beaverlodge mine near Uranium City, and the refinery and administrative offices in Port Hope, Ontario. The principal functions of the company are to produce, refine and sell uranium and allied products.

Since 1948 the company has also been charged with the responsibility for the purchase and disposal of all uranium produced in Canada, although in recent years private producers have been free, under certain circumstances, to sell uranium without reference to the company. Uranium concentrates are purchased by the company, as the uranium procurement agent for the Crown, at various prices determined by separate agreements with each producer. In some cases the purchase prices are higher, and in other cases lower, than the prices at which the concentrates are sold to the United States Atomic Energy Commission and the United Kingdom Atomic Energy Authority. Although all purchase costs will be fully recovered before the contracts with the Commission and the Authority are completed, there are periods within the life of individual contracts when cumulative costs of concentrates sold exceed revenue from sales. During these periods, temporary financing is provided, as required, by the company. Charges are applied against the contract revenue for the company's services in administering and financing the ore procurement program.

During 1962 the cost of purchased concentrates delivered to the Commission and the Authority of \$153,444,000 exceeded the revenue from sales of \$151,964,000 by \$1,480,000. Administrative expenses and financial charges for the period amounted to \$308,000. The resultant excess of costs and expenses over sales of \$1,788,000 will be offset in future periods when sales will be made at prices exceeding the costs of acquisition.

A contract dated July 30, 1962 between the company and the United Kingdom Atomic Energy Authority for the sale of 12,000 tons of uranium in concentrates provides for certain deliveries on which payments do not become due until later years of the contract period. The account receivable thus deferred at December 31, 1962, and amounting to \$3,988,000, will increase to a maximum of almost \$32,000,000 in 1965 and decline thereafter until it is fully paid at the end of the contract in 1973.

The equity of the Crown in the company at December 31, 1962 amounted to \$50,268,000, consisting of capital stock of \$6,586,000 and surplus of \$43,682,000. Dividends of \$3,000,000 were paid to the Receiver General during the year, compared with \$5,000,000 paid in the preceding year.

The following is a summary of income and expense for the financial year 1962, in comparison with the preceding year:

	Year ended December 31	
	1962	1961
Income—		
Sales of uranium concentrates, uranium metal and related products, and revenue from refining services	\$26,695,000	\$29,607,000
Expense—		
Mining, refining and other expenses	12,511,000	16,032,000
Depreciation	3,952,000	3,900,000
Amortization of cost of acquiring rights to deliver concentrates on cancellation of contract with another producer	3,234,000	4,178,000
Amortization of pre-production, mine development and other deferred expenditures	836,000	1,102,000
Reduction in valuation of inventories		785,000
	20,533,000	25,997,000
Net income from operations	6,162,000	3,610,000
Other income	1,648,000	728,000
	7,810,000	4,338,000
Provision for income tax	3,600,000	2,125,000
Net income	\$ 4,210,000	\$ 2,213,000

Notwithstanding the continuing decline in sales of uranium concentrates—amounting to \$3,068,000 in 1962—offset to a small degree by increased revenue of \$156,000 from refining services and sales of special products, the reduction in expense was such that net income from operations increased by \$2,552,000 for the year.

In 1960 the company acquired, at a cost of \$19 million, the rights of another uranium producer to deliver concentrates to the United States Atomic Energy Commission. This cost is being written off on a pro rata basis against the production remaining to be supplied out of the Beaverlodge mine. After amortizing \$3,234,000 in 1962, the sum of \$6,589,000 remained to be written off by 1965.

Following the shut-down of the Port Radium mine in 1960, substantial losses on disposal of general, leach plant and commissary stores were considered inevitable by management and accordingly this inventory was reduced to a nominal value of one dollar by write-offs of \$639,000 in 1960 and \$85,000 in 1961. The inventory valuation of uranium metal and related products at Port Hope was reduced by write-offs of \$927,000 in 1960 and \$700,000 in 1961 to revalue these products in accordance with current market conditions. No further reduction was made in the value of uranium metal and related products inventories in 1962.

147. *Export Credits Insurance Corporation.* This Corporation was established in 1944 by the Export Credits Insurance Act, R.S., c. 105, to provide insurance to Canadian exporters of goods and services against the risk of non-payment by foreign buyers. The Corporation is intended to operate on a self-sustaining basis from premiums charged on contracts of insurance. Where the Corporation is of the opinion that a proposed contract of insurance would impose upon it a liability for a term or in an amount in excess of that

which it would normally undertake, the Governor in Council may, pursuant to section 21 of the Act, authorize the Corporation to enter into the proposed contract of insurance. In the event of a loss under this section (there has been none) the moneys required to discharge the liability are payable from unappropriated moneys in the Consolidated Revenue Fund. A 1959 amendment to the Act introduced section 21A under which the Corporation may, with the authority of the Governor in Council, provide financing for long term export sales of capital goods with funds available out of the Consolidated Revenue Fund. The Corporation's head office is in Ottawa with branches in Montreal and Toronto.

The Crown's equity in the Corporation at December 31, 1962 was \$40,520,000, consisting of share capital of \$5,000,000, capital surplus of \$5,000,000, earned surplus of \$2,390,000 and an underwriting reserve of \$5,000,000, together with advances and accrued interest totalling \$23,130,000 in respect of long term financing of sales agreements under section 21A of the Act. The Corporation held Government of Canada bonds having a par value of \$18,550,000.

Export sales insured by the Corporation on its own account during 1962 totalled \$96,000,000 and premiums earned amounted to \$679,000. Export sales insured under section 21 of the Act totalled \$49,000,000 and premiums amounted to \$748,000 of which \$561,000 was remitted to the Receiver General and \$187,000 was retained by the Corporation in respect of expenses and overhead, in accordance with a basis authorized by the Minister of Finance. At December 31, 1962 the liability of the Corporation under contracts of insurance issued and outstanding totalled \$268,106,000 of which \$196,354,000 was for contracts entered into under section 21 of the Act.

At December 31, 1962, after two years of operation in the field of direct financing of long term export sales of capital goods under the authority of section 21A of the Act, the Corporation had signed agreements to finance export sales amounting to \$57,000,000, of which \$23,000,000 had been disbursed. In addition, the Corporation had agreed in principle to finance \$100,000,000 of prospective sales and had undertaken to guarantee negotiable instruments totalling \$21,220,000 with respect to completed sales.

The following is a comparative summary of operations for the Corporation's past two financial years:

	Year ended December 31	
	1962	1961
Income—		
Premiums and fees earned	\$ 921,000	\$ 744,000
Expense—		
Salaries and benefits	316,000	221,000
Rents	33,000	17,000
Travel	21,000	15,000
Communications expense and credit reports	19,000	16,000
Stationery, printing and office expenses	16,000	18,000
Other	34,000	42,000
	439,000	329,000
	482,000	415,000

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	Year ended December 31	
	1962	1961
Policyholders' claims—		
Recoveries	687,000	558,000
Payments	164,000	163,000
	<u>523,000</u>	<u>395,000</u>
Excess of income and net recovery on policyholders' claims over expense	1,005,000	810,000
Add: Interest on investments	719,000	678,000
	<u>1,724,000</u>	<u>1,488,000</u>
Deduct: Provision for income tax	828,000	741,000
	<u>896,000</u>	<u>747,000</u>
Surplus for year	<u>\$ 896,000</u>	<u>\$ 747,000</u>

The cost of additional staff for the Export Finance Division, formed in 1961, and for insurance and general administration, together with the cost for a full year of larger quarters occupied in September 1961, was largely responsible for the increase of \$110,000 in the Corporation's expenses during the 1962 financial year.

The following is a summary of transactions during the year in respect of payments of policyholders' claims for losses:

Type of claim	Outstanding Jan. 1, 1962	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1962
Insolvency	\$ 268,000	\$ 8,000	\$ 2,000	\$ 76,000	\$ 198,000
Default	354,000	150,000	129,000	76,000	299,000
Exchange transfer	1,482,000		556,000	(56,000)	982,000
Other	1,000	6,000		6,000	1,000
	<u>\$ 2,105,000</u>	<u>\$ 164,000</u>	<u>\$ 687,000</u>	<u>\$ 102,000</u>	<u>\$ 1,480,000</u>

Of the amount of \$1,480,000 in claim payments shown above as outstanding at December 31, 1962, the Corporation anticipates making substantial recoveries, particularly in respect of those claims, amounting to \$982,000, which were paid because of exchange transfer difficulties in the buyers' countries. The amounts to be recovered will be added to Income in the years in which the recoveries are effected.

148. *Farm Credit Corporation.* This Corporation was established in 1959 by the Farm Credit Act, 1959, c. 43, to succeed the Canadian Farm Loan Board which had operated since 1929. The purpose of the Corporation is to make, administer and supervise long term mortgage loans to farmers. The head office is in Ottawa and there are seven branches and 127 field offices throughout Canada.

During the year under review the Government of Canada paid the Corporation \$2,250,000 to increase its capital investment, and advanced a further \$56,747,000 (net)

by way of loans. At March 31, 1963 the equity of the Government in the Corporation amounted to \$278,158,000, comprising: capital, \$10,350,000; loans, \$258,618,000; accrued interest on loans, \$7,519,000; and reserve for losses, \$1,671,000.

During the year, 6,453 loans (6,027 in 1961-62) were disbursed to farmers to a total of \$78,428,000 (\$68,887,000 in 1961-62) and repayments amounted to \$20,287,000 (\$15,197,000 in 1961-62). Loans outstanding at the year-end, including accrued interest, amounted to \$277,485,000 compared with \$217,898,000 at the end of the previous year.

The following is a comparative summary of the income and expense of the Corporation for the past two years:

	Year ended March 31	
	1963	1962
Income—		
Interest earnings	\$11,806,000	\$ 9,152,000
Deduct: Interest on loans from the Government of Canada	10,200,000	7,867,000
	<hr/>	<hr/>
	1,606,000	1,285,000
Appraisal, supervision and legal fees	500,000	406,000
	<hr/>	<hr/>
	2,106,000	1,691,000
	<hr/>	<hr/>
Expense—		
Salaries and employee benefits	2,427,000	1,817,000
Travel	277,000	216,000
Office accommodation	212,000	129,000
Printing, stationery and office supplies	80,000	80,000
Postage, express, telephone and telegraph	78,000	59,000
Fees and expenses of part-time appraisers	21,000	91,000
Depreciation	36,000	31,000
Other	55,000	44,000
	<hr/>	<hr/>
	3,186,000	2,467,000
	<hr/>	<hr/>
Net loss carried to reserve for losses	\$ 1,080,000	\$ 776,000
	<hr/>	<hr/>

The increase of \$719,000 in expense for the year ended March 31, 1963 resulted largely from the continued growth in lending activity and the consequent expansion of the Corporation which has resulted in an increase in staff from 183 at March 31, 1960 to 388 at March 31, 1962 and 468 at March 31, 1963.

In my report under section 87 of the Financial Administration Act, on the examination of the accounts of the Corporation for the year ended March 31, 1963, reference was made to the reduction in the Reserve for Losses during the past three years, due in part to the statutory obligation placed on the Corporation to lend money at a fixed rate, as follows:

Section 15 of the Farm Credit Act requires the Corporation to establish a Reserve out of which may be paid "any losses sustained by the Corporation in the conduct of its

business". The section further provides that the Corporation shall credit its net earnings each year to this Reserve until the amount of the Reserve equals the capital of the Corporation, which amounted to \$10,350,000 at March 31, 1963. In the years up to March 31, 1960, the Reserve for Losses had been built up to an amount of \$3,749,000, including \$3,486,000 accumulated by the predecessor corporation (Canadian Farm Loan Board) to March 31, 1959.

The operations of the Corporation over the past three years have resulted in net losses aggregating \$2,078,000 which have reduced the balance of the Reserve to \$1,671,000 at March 31, 1963. These losses are due in part to the Corporation being required to pay a higher rate of interest on \$42,300,000 borrowed from the Government of Canada than the rate of 5% charged, under section 16 of the Act, on loans to farmers.

An amount of \$11,500,000 borrowed at 5½% during the year brings to \$107,800,000 the total of amounts which have been borrowed at interest rates of 5% (\$65,500,000), 5½% (\$11,500,000) and 5¾% (\$30,800,000) since April 1, 1959 and loaned to farmers at the statutory interest rate of 5%. In addition to a direct interest loss in excess of \$3,000,000 during the repayment period, on the \$42,300,000 borrowed at 5½% and 5¾%, these interest rates provide no margin to cover administrative expenses and losses on loans.

Since further annual operating losses appear to be in prospect, consideration should be given to means whereby these losses may be covered without further depleting the Reserve, as well as to the manner in which the Reserve can be brought up to the equivalent of the capital of the Corporation as contemplated by section 15 of the Act.

149. *The National Battlefields Commission.* This Commission, which was constituted by the National Battlefields at Quebec Act, 1908, c. c. 57 and 58, with the object of acquiring and preserving the historic battlefields at Quebec, comprises nine members, seven of whom are appointed by the Governor in Council and one by the governments of each of the provinces of Ontario and Quebec.

Prior to 1958 the Commission was financed by statutory grants made from time to time under the constituting Act but, since then, the Commission has been financed by annual parliamentary appropriations. At March 31, 1963 the proprietary equity of the Crown in the Commission amounted to \$1,482,000 represented by an investment of \$1,465,000 in capital assets and \$17,000 in working capital. The increase of \$21,000 over the equity at March 31, 1962 is accounted for by increases of \$20,000 in capital assets and \$1,000 in working capital during the year.

The following is a summary of the expenses for the year under review compared with those of the preceding year:

	Year ended March 31	
	1963	1962
Salaries, wages and related expenses	\$ 151,000	\$ 151,000
Repairs of roads and driveways	21,000	—
Policing services	14,000	12,000
Operating supplies and nursery stock	10,000	10,000
Heat, light and power	10,000	10,000
Other expenses	6,000	7,000
	<hr/>	<hr/>
	212,000	190,000
Capital outlays	21,000	24,000
	<hr/>	<hr/>
	\$ 233,000	\$ 214,000

The expenditure of \$21,000 for repairs of roads and driveways represents the cost of patching and paving sections of the avenues within the park. No repairs of this nature had been undertaken since 1949.

The expenses of the Commission during the year under review, shown above in the amount of \$233,000, were financed to the extent of \$214,000 by parliamentary appropriations and \$19,000 by Governor General's special warrant.

Funds contributed by provincial governments, municipalities and others in the years following the establishment of the Commission in 1908, which may be used only for the acquisition of land, with prior parliamentary approval, amounted to \$29,000 at March 31, 1963. The only change in the balance of this account over the past thirty years has been the increase arising out of investment earnings.

150. *National Capital Commission.* This Commission was established by the National Capital Act, 1958, c. 37, to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission, 1899.

The objects and purposes of the Commission under the Act are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance". Subject to the control exercised by the Governor in Council, the Commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; undertaking joint projects with municipalities or making grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites. The Commission consists of 20 members appointed by the Governor in Council from across Canada.

The proprietary interest of the Government of Canada in the Commission, including loans, at March 31, 1963 totalled \$83,084,000 represented by: cash, \$1,230,000; inventories of tools, equipment and supplies, \$243,000; payments for land purchases under negotiation, \$6,016,000; and cost of capital assets, \$75,595,000.

The Commission's activities are financed by annual parliamentary appropriations, drawings from the National Capital Fund and loans from the Government of Canada, along with incidental revenues from rentals, etc. A summary of the expenditure and other transactions for the past two years is as follows:

	Year ended March 31	
	1963	1962
<u>Operation and maintenance of parks, parkways and grounds adjoining Government buildings at Ottawa and Hull and general administration</u>		
Expenditures	\$ 3,131,000	\$ 2,579,000
Provided for by:		
Parliamentary appropriations	\$ 2,905,000	\$ 2,317,000
Revenue	226,000	262,000
	<u>\$ 3,131,000</u>	<u>\$ 2,579,000</u>

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	Year ended March 31	
	1963	1962
<u>National Capital Fund</u>		
Balance of Fund in hands of Commission at beginning of year	\$ 302,000	\$ 1,000
Add:		
Amounts drawn from Fund provided by parliamentary appropriations	5,500,000	4,250,000
Proceeds from sales of property	120,000	682,000
	<u>5,620,000</u>	<u>4,932,000</u>
	5,922,000	4,933,000
Deduct:		
Capital outlays for parks, parkways, railway lines and structures	3,367,000	2,968,000
Repayment of loans to acquire property now in use—Queensway	—	345,000
Maintenance of land and rehabilitation works	81,000	112,000
Contributions to the City of Ottawa and other municipalities towards the cost of constructing roads, bridges, sewers, etc.	2,732,000	1,206,000
	<u>6,180,000</u>	<u>4,631,000</u>
Balance of Fund in hands of Commission at March 31, 1962		\$ 302,000
Amount due from National Capital Fund at March 31, 1963	\$ 258,000	
<u>Acquisition of property in the National Capital Region through loans provided by the Government of Canada</u>		
Unexpended balance of loans at beginning of year	\$ 901,000	\$ 684,000
Add:		
Government of Canada loans (net)	9,428,000	6,247,000
Proceeds from sales of property	372,000	3,553,000
	<u>9,800,000</u>	<u>9,800,000</u>
	10,701,000	10,484,000
Deduct:		
Expenditures for acquisition of property	9,471,000	9,583,000
Unexpended balance of loans at end of year	\$ 1,230,000	\$ 901,000
<u>Interest charges on outstanding Government of Canada loans</u>		
Interest on loans	\$ 1,776,000	\$ 1,505,000
Provided for by:		
Parliamentary appropriation	\$ 1,475,000	\$ 1,304,000
Net revenue from rentals of property and interest earnings	301,000	201,000
	<u>\$ 1,776,000</u>	<u>\$ 1,505,000</u>

The expenditures incurred in the various activities of the Commission, as summarized above, totalled \$20,558,000 during the year compared with \$18,298,000 in the preceding year and were financed as follows:

	Year ended March 31	
	1963	1962
Parliamentary appropriations	\$10,440,000	\$ 7,570,000
Loans to the Commission	9,099,000	6,030,000
Proceeds from sales of property	492,000	4,235,000
Revenues of the Commission	527,000	463,000
	<u>\$20,558,000</u>	<u>\$18,298,000</u>

In paragraph 59 of this Report, reference is made to loan interest paid by the Commission out of funds provided by means of annual parliamentary appropriations.

151. *National Centennial Administration.* The National Centennial Administration was established by the National Centennial Act, 1961, c. 60, the objects being to promote interest in, and to plan and implement programs and projects relating to, the Centennial of Confederation in Canada. The Administration consists of a Commissioner, a Deputy Commissioner and eight directors, all appointed by the Governor in Council, and operations are conducted from a head office in Ottawa.

Section 10 of the Act directs that there shall be a special account in the Consolidated Revenue Fund, to be known as the National Centennial Fund, to which there shall be credited the amounts appropriated by Parliament for the purposes of the Fund. The Minister of Finance may, on the recommendation of the President of the Queen's Privy Council for Canada, pay to the Administration out of the Consolidated Revenue Fund "such amounts as are from time to time required for the purpose of making grants to any province, or to any organization the objects of which are similar to the objects of the Administration, for the observance of the Centennial of Confederation in Canada". The amounts paid by the Minister of Finance are to be charged to the Fund but a payment out of the Consolidated Revenue Fund may not exceed the balance standing to the credit of the Fund. With Privy Council Vote 55 providing for a payment of \$833,333 to the National Centennial Fund and no payments having been made out of the Fund, a balance of \$833,333 was carried at the credit of the National Centennial Fund at March 31, 1963. Special Appropriation Act, 1963, which was given Royal Assent on July 22, 1963, provided for the payment of \$1,000,000 to the Fund in respect of the year ended March 31, 1963. Accordingly, an additional \$166,667 was charged to Privy Council Vote 55 and credited to the Fund as at March 31, 1963.

Section 11 of the Act provides that all expenditures of the Administration, other than grants made out of the National Centennial Fund, shall be made out of moneys appropriated by Parliament therefor. The expenses for the period from the establishment of the Administration on September 29, 1961 to March 31, 1963 comprised \$275,000 for two grants and \$22,000 for administrative expenses. The grants were made pursuant to

the provisions of section 9 of the Act which provides that the Administration may, subject to the approval of the Governor in Council, engage in joint projects with, or make grants to, any province or organization with objects similar to those of the Administration. The administrative expenses did not include the value of office accommodation and accounting services provided by government departments.

152. *National Harbours Board.* This Board was established in 1936 by the National Harbours Board Act, now R.S., c. 187, and has jurisdiction over the harbours of Halifax, Saint John, Chicoutimi, Quebec, Three Rivers, Montreal (including the Jacques Cartier and Champlain Bridges), Vancouver and Churchill, together with the grain elevators at Prescott and Port Colborne. The head office of the Board is in Ottawa.

The proprietary equity of the Government of Canada at December 31, 1962, as shown on the Board's balance sheet, totalled \$463,766,000, made up of: assets transferred to the Board on its establishment and subsequently, \$56,917,000; loans and advances, \$308,882,000; interest in arrears on loans and advances, \$71,290,000; and reserves, \$100,037,000; less the accumulated deficit of \$73,360,000.

There was a net increase of \$17,945,000 during the year in the outstanding loans and advances. The following summary shows the changes in this account:

Balance, January 1, 1962		\$ 290,937,000
Add:		
Loans during year, secured by certificates of indebtedness	\$ 18,816,000	
Advances	150,000	18,966,000
		<hr/>
		309,903,000
Less: Repayments during year		1,021,000
		<hr/>
Balance, December 31, 1962		<u>\$ 308,882,000</u>

The interest in arrears on loans increased by \$6,504,000 during the year, representing credits to the proprietary equity of \$10,059,000 (with offsetting charges to expenditure) less payments to the Receiver General of \$3,555,000. There has been a steady increase over the past five years in the outstanding interest in arrears on loans, as follows:

December 31, 1958	\$49,315,000
December 31, 1959	54,011,000
December 31, 1960	59,008,000
December 31, 1961	64,786,000
December 31, 1962	71,290,000

In previous Reports it was observed that there appears little prospect of the Board being in a position to meet its principal and interest obligations and it was recommended that consideration be given to reconstituting the Board's financial structure on a more realistic basis.

Amounts receivable by the Board at the year-end included \$112,000 due from the Quebec Natural Gas Corporation for rental charges by the Board for an easement for a 20-inch natural gas pipeline on the Jacques Cartier Bridge. The amount represents the sum of \$56,000 which was outstanding on December 31, 1961 plus a charge of the same amount for 1962, no payment having been received during the year. Authority for installation of the pipeline was granted by the Board on May 1, 1959 subject to later negotiation of the annual rental rate, but after installation of the pipeline the corporation would not agree to the rental rate proposed by the Board and requested the Board to consider a rental rate that would be little more than nominal. No agreement was reached during the year under review with respect to the rate to be charged.

The Jacques Cartier Bridge was operated, until revocation of tolls on June 1, 1962, under a tri-partite agreement, a provision of which required the City of Montreal and the Province of Quebec each to pay to the Board one-third of any annual deficit arising from the operations of the Bridge, to a maximum of \$150,000. In 1944 the Province refused to make its required contribution and as of the end of 1949 its accumulated indebtedness amounted to \$744,425. The Bridge has not incurred an operating deficit since 1949 and the accounts of the Board continue to show this sum as the amount due from the Province. The settlement of this claim and the transfer of the Bridge to the Province have been subjects of recent negotiation between the Board and the Province.

As observed in previous Reports, the Board has been involved in a dispute with the Canadian Pacific Railway regarding the ownership of certain areas at Coal Harbour, Vancouver, since the Board's establishment in 1936 (being a continuation of a dispute between the Board's predecessor and the Railway Company since 1880). Pending settlement of the matter, the C.P.R. collects rental and other revenue from certain areas in possession of the Company, while the Harbour authorities do likewise in respect of certain areas which the Board has occupied. At December 31, 1962 the Board was holding \$139,800 in cash and securities in a special account, while the C.P.R. was holding \$220,000 in an escrow account. No progress was made towards settlement of the dispute during the year.

The following is a summary of the operations of the Board for its past two financial years:

	Year ended December 31	
	1962	1961
Operating income—		
Harbours	\$ 3,184,000	\$ 3,243,000
Wharves and piers	9,267,000	9,366,000
Grain elevator systems	7,539,000	7,739,000
Cold storage systems	1,130,000	1,172,000
Permanent sheds	2,023,000	1,843,000
Railway systems	705,000	731,000
Jacques Cartier Bridge	1,494,000	3,498,000
Champlain Bridge	163,000	—
Miscellaneous services	1,213,000	1,426,000
	<u>26,718,000</u>	<u>29,018,000</u>

	Year ended December 31	
	1962	1961
Operating and administrative expenses—		
Harbours	3,870,000	3,775,000
Wharves and piers	1,186,000	871,000
Grain elevator systems	5,235,000	5,416,000
Cold storage systems	1,173,000	1,141,000
Permanent sheds	1,485,000	1,378,000
Railway systems	1,103,000	1,119,000
Jacques Cartier Bridge	426,000	694,000
Champlain Bridge	155,000	—
Miscellaneous services	1,460,000	1,645,000
Administrative expenses	2,259,000	2,004,000
	<u>18,352,000</u>	<u>18,043,000</u>
Net operating income	8,366,000	10,975,000
Other income—		
Income from investments	2,475,000	2,520,000
Miscellaneous	202,000	170,000
	<u>11,043,000</u>	<u>13,665,000</u>
Special charges—		
Provision for interest on loans and advances	9,464,000	8,759,000
Provision for replacement of capital assets	4,493,000	4,349,000
Other special charges	664,000	555,000
	<u>14,621,000</u>	<u>13,663,000</u>
Net loss or (profit)	<u>\$ 3,578,000</u>	<u>(\$ 2,000)</u>

As previously noted, all tolls and charges assessable in respect of the passage of vehicles over the Jacques Cartier Bridge were revoked, effective June 1, 1962 in accordance with Order in Council P.C. 1962-792 of May 28, 1962, and this accounts for the decrease in revenue of \$2,004,000 from this source. The Champlain Bridge was opened to traffic on June 29, 1962 and is being operated as a toll bridge.

The increases in operating expenses for harbours and wharves and piers are largely explained by repairs of a nature which do not normally occur annually. At Quebec, major repairs and reconstruction of a quay wall amounted to \$144,000 and, at Montreal, repairs to a wharf amounted to \$156,000.

Prevailing rate employees of the Board, after a period of satisfactory service, become eligible to be contributors under the Public Service Superannuation Act, retroactive to

date of commencement of employment. In such cases it becomes necessary for the Board to contribute to the Public Service Superannuation Account an amount equal to the sum contributed by relevant employees for service prior to the date of eligibility. A large number of prevailing rate employees at Montreal will become eligible to so contribute during 1963 and, accordingly, the sum of \$111,000 was charged in the accounts as a provision for the estimated liability for contributions which will then be required to be made by the Board in respect of prior service. This provision, plus an upward adjustment in salaries of permanent employees, largely explains the increase in administrative expenses during the year ended December 31, 1962.

153. *Northern Canada Power Commission.* This Commission, which was established in 1948 and operates under the Northern Canada Power Commission Act, 1956, c. 44, consists of three members appointed by the Governor in Council and has its head office in Ottawa. The objects of the Commission are to construct and operate electric power plants and to supply power to mines and other users in the Northwest Territories and the Yukon Territory and, with the approval of the Governor in Council, in any other part of Canada. Hydro-electric plants are operated at Snare River, N.W.T. and at Mayo River and Whitehorse Rapids, Y.T. and thermal-electric stations are in operation at Fort Resolution, Fort Smith, Fort Simpson, Inuvik, Fort McPherson and Frobisher Bay, N.W.T. and at Field, B.C.

The proprietary equity of the Government of Canada, as shown on the Commission's balance sheet at March 31, 1963 was as follows:

	March 31	
	1963	1962
Advances:		
Under section 14 of the Act—for investigation of projects	\$ 50,000	\$ 50,000
Under section 15 of the Act—for capital expenditures, including accrued interest	18,960,000	19,104,000
Equity represented by depreciated value of public utilities at Inuvik, N.W.T., financed by advances under section 15 of the Act recoverable from funds to be appropriated by Parliament according to Order in Council P.C. 1957-36/626 of May 3, 1957	6,513,000	6,759,000
Reserve for contingencies pursuant to section 10 of the Act	1,601,000	1,611,000
Reserve for extension, expansion and improvements, equivalent to expenditures incurred on acquisition of capital assets, as permitted under section 22 of the Act	242,000	228,000
Surplus, per Statement of Surplus	856,000	913,000
	<u>\$28,222,000</u>	<u>\$28,665,000</u>

Subsequent to the fiscal year-end, Special Appropriation Act, 1963 (Vote 119) authorized the write-off of the advances made to the Commission for the construction and installation of the public utilities at Inuvik, N.W.T., thus permitting a corresponding elimination from proprietary equity in the Commission's accounts.

The Commission acts as agent for the Government of Canada in respect of loans made under the Atlantic Provinces Power Development Act, 1957-58, c. 25, and, in this capacity, advances are made to the provincial power commissions of Nova Scotia, New Brunswick and Newfoundland. As of March 31, 1963 these outstanding loans totalled \$23,170,000, of which \$5,861,000 was added during 1962-63.

A summary of the income and expense of the Commission for the past two years follows:

	Year ended March 31	
	1963	1962
Income—		
Sales of power	\$ 2,798,000	\$ 3,036,000
Income arising from construction, maintenance and operation of facilities for government departments and others	568,000	471,000
Sale of steam and water heat	365,000	375,000
Miscellaneous	123,000	106,000
	<hr/>	<hr/>
	3,854,000	3,988,000
Expense—		
Operating and maintenance	2,135,000	1,823,000
Administrative	236,000	227,000
Interest on advances from the Government of Canada	757,000	775,000
Provision for depreciation (equivalent to repayment of principal of advances from the Government of Canada)	498,000	494,000
	<hr/>	<hr/>
	3,626,000	3,319,000
	<hr/>	<hr/>
Net income	\$ 228,000	\$ 669,000
	<hr/>	<hr/>

During the year the rates charged for electric power were reduced and there was a decrease of approximately \$484,000 from the preceding year in the revenue from sales of power attributable to the lower rates. However, consumer demand for electric power continued to rise and the decline in revenue resulting from the lower rates was offset to the extent of \$247,000 by revenue from increased consumption.

154. *Northern Ontario Pipe Line Crown Corporation.* This Corporation was established by the Northern Ontario Pipe Line Crown Corporation Act, 1956, c. 10, for the purpose of constructing the Northern Ontario section of the all-Canadian gas pipe line and leasing it (subject to approval by the Governor in Council) to Trans-Canada Pipe Lines Limited, with an option to purchase.

In October 1958 the Corporation entered into an agreement to lease the Northern Ontario section to Trans-Canada Pipe Lines Limited for a period of 25 years, with an option to purchase the facilities, exercisable within the period of the lease agreement.

Under the terms of the lease, all expenses of operation, repairs and maintenance, taxes and other expenses of upkeep were borne by the lessee.

Section 6 of the Act enabled the Corporation to borrow, from the Government of Canada or otherwise, the funds necessary for the construction of the facilities, provided that the borrowings outstanding at any time did not exceed \$130 million. Borrowings under this section were solely from the Government and were covered by demand notes bearing interest at the rate of $3\frac{1}{2}\%$ per annum. At December 31, 1962, \$113,137,000 was outstanding, a decrease of \$7,843,000 from the preceding year, being the net result of additional loans of \$1,545,000 and repayments of \$9,388,000.

The capital cost of the Northern Ontario section at December 31, 1962 amounted to \$129,866,000, comprising assets acquired of \$119,873,000 and engineering, administrative and financing expenses of \$9,993,000.

The Corporation's accumulated surplus increased by \$118,000, from \$365,000 at January 1, 1962 to \$483,000 at December 31, 1962. This increase was accounted for by the excess of interest earned in accordance with the lease agreement, \$4,205,000, over the interest of \$4,087,000 paid on borrowings from the Government of Canada.

A footnote to the Corporation's balance sheet at December 31, 1962 stated that Trans-Canada Pipe Lines Limited had indicated its intent to exercise the option to purchase the Northern Ontario section in 1963. This option has since been exercised and the purchase was completed on May 29, 1963 whereupon the Corporation discharged its liability for the amount then due to the Government of Canada for outstanding loans and interest accrued thereon. In accordance with the terms of sale, Trans-Canada Pipe Lines Limited assumed responsibility for the negotiation and settlement of all claims then outstanding and any other claims which may arise in the future.

155. *Northern Transportation Company Limited.* This Company is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Northern Transportation (1947) Limited was incorporated under the Companies Act, 1934, to take over the business and undertaking of a predecessor company which had been incorporated under a Province of Alberta charter in 1935 and whose shares had been acquired when the capital stock of Eldorado Mining and Refining Limited was expropriated by the Government in 1944. The corporate name was changed to Northern Transportation Company Limited in 1952. Although the Company is authorized by its letters patent to carry on a general transportation business by land and water throughout Canada and elsewhere, its activities, directed from administrative headquarters in Edmonton, have been almost wholly confined to the Mackenzie River water system and the adjacent area of the Arctic Ocean.

The equity of Eldorado Mining and Refining Limited at December 31, 1962 was \$6,159,000, comprising capital stock of \$152,000, surplus of \$4,757,000 and a reserve for insurance of \$1,250,000. The reserve for insurance was increased by \$750,000 during the year under review by a transfer of this amount from surplus in accordance with a resolution of the Board of Directors to discontinue all physical damage insurance coverage with commercial companies by June 30, 1962. The reserve is fully invested in short-term bank deposits.

The following is a comparative summary of the operating results of the company for its last two financial years:

	Year ended December 31	
	1962	1961
Income—		
Freight earnings	\$ 2,233,000	\$ 2,583,000
Expense—		
Operating	1,265,000	1,361,000
Depreciation	488,000	527,000
Administrative	240,000	222,000
	1,993,000	2,110,000
Net income from operations	240,000	473,000
Miscellaneous income	142,000	93,000
	382,000	566,000
Provision for income tax	250,000	312,000
Net income	\$ 132,000	\$ 254,000

The decline in freight earnings which began in 1959 continued during the year ended December 31, 1962 with a decrease of \$350,000, mainly due to reduced traffic caused by the curtailment of uranium production at the Beaverlodge mine of Eldorado Mining and Refining Limited. The reduction of \$96,000 in operating expenses reflected the decreased level of operating activity, as well as a continuation of the cost reduction policy put into effect last year.

156. *Park Steamship Company Limited.* This Company, incorporated in 1942 under the Companies Act, 1934 for the purpose of supervising the operation of Crown-owned cargo vessels, ceased operations when the "Park" fleet was sold in 1946-47. Its current activities are limited to the settlement of occasional claims for compensation by seamen for injuries that had been sustained during the operating period, and these activities are attended to by staff of the Canadian Maritime Commission.

157. *Polymer Corporation Limited and subsidiary companies.* Polymer Corporation Limited was incorporated in 1942 under the Companies Act, 1934 pursuant to the provisions of section 6 of the Department of Munitions and Supply Act, 1939, c. 3 as amended by 1940, c. 31. At December 31, 1962 there were three wholly-owned subsidiary companies: Polysar Belgium S.A., Polysar Nederland N.V., and Polysar International S.A., as well as one subsidiary, Polymer Corporation (SAF) in which Polymer held a 95% equity and the Banque de Paris et des Pays-Bas the remaining 5%. Polymer Corporation (SAF) was incorporated under the laws of France in January 1961 and in the fall of 1962 its special purpose rubber plant located near Strasbourg commenced operations, although output to the end of the year was nominal. Polysar Belgium S.A.

was formed under the laws of Belgium in December 1961 and construction of a butyl rubber plant near Antwerp began in 1962. Polysar Nederland N.V., which is a holding company, was incorporated in accordance with the laws of Holland in May 1962. Polysar International S.A., with headquarters in Fribourg, Switzerland and branch offices in Vienna, London, Tokyo and Mexico City, was incorporated under Swiss law in June 1962 for the purpose of marketing all Polymer products outside of North America. The parent company produces synthetic rubbers and chemicals at Sarnia where the head office is also situated.

The equity of the Crown in Polymer Corporation Limited and its subsidiary companies at the year-end amounted to \$79,105,000, consisting of capital stock of \$30,000,000 and retained earnings of \$49,105,000. During the year under review dividends of \$3,000,000 were paid to the Receiver General, the same amount as in the previous year.

The results of operations for the past two years are set out in the summary which follows. Since none of the subsidiary companies had commenced operations by December 31, 1961 and only one had begun full-scale operations by December 31, 1962, the amounts shown for 1961 are with respect to the operations of the parent company only, and the amounts shown for 1962 include, in addition, only the operating results of the one subsidiary for the period from September 1 to December 31, 1962.

	Year ended December 31	
	1962	1961
Sales	\$87,022,000	\$87,679,000
Other income	435,000	835,000
	<u>87,457,000</u>	<u>88,514,000</u>
Cost of sales	63,634,000	64,308,000
Selling, administrative and research expenses	4,774,000	4,144,000
	<u>68,408,000</u>	<u>68,452,000</u>
Net income before provision for income tax	19,049,000	20,062,000
Provision for income tax	8,765,000	9,842,000
Net income	<u>\$10,284,000</u>	<u>\$10,220,000</u>

Additions to fixed assets during the year, amounting to \$23,517,000, were almost equally divided between the costs of the capital development program of the subsidiary companies and the costs of the expansion of the parent company plant at Sarnia. The managements of the several companies estimate that continuation of the capital development program will involve expenditures totalling \$21,000,000 during the year ending December 31, 1963.

In computing taxable income for the years 1961 and 1962 the company took advantage of capital cost allowances permitted under the Income Tax Act which were in excess of depreciation charged in the accounts. The effect of this procedure was to

defer payment of income tax totalling \$3,460,000 until future years when depreciation charges may be in excess of capital cost allowances.

To finance construction of their plants in France and Belgium, Polymer Corporation (SAF) borrowed NF 35.600.000 (\$7,817,200) repayable 1965-71, and Polysar Belgium S.A. negotiated a loan of BF 450.000.000 (\$9,729,729), repayable 1969-77. No funds were drawn down by Polysar Belgium S.A. under its loan during 1962. With the exception of NF 15.280.000 (\$3,354,900), the loans are guaranteed by the parent company and all are repayable in the currency in which they were obtained.

158. *The St. Lawrence Seaway Authority.* Established by the St. Lawrence Seaway Authority Act, R.S., c. 242 (proclaimed July 1, 1954) the Authority maintains and operates the Canadian section of the 27 foot waterway between the Port of Montreal and Lake Erie. The section of the Seaway in the United States is operated by the Saint Lawrence Seaway Development Corporation. In accordance with an agreement made in 1959 between Canada and the United States, revenues from tolls are divided between the two Seaway entities in proportion to their annual costs of operation and maintenance, interest charges and repayment of loans. The Authority also operates non-toll canals at Lachine, Cornwall and Sault Ste. Marie, the net operating cost being provided for by annual parliamentary appropriations.

The Authority is a corporation consisting of a President and two other Members as provided by the Act. Its head office is at Ottawa, with operating headquarters at Cornwall and regional headquarters at St. Lambert, Cornwall and St. Catharines.

The Crown's equity at December 31, 1962 is shown on the Authority's balance sheet as follows:

Capital assets transferred from Department of Transport, April 1, 1959 (including Welland Ship Canal at a value of \$130,717,000)		\$ 180,483,000
Loans under section 25 of the Act		334,500,000
Interest on loans—deferred		49,388,000
		<hr/> 564,371,000
Deduct: Deficit		37,934,000
		<hr/> <hr/> \$526,437,000

The following is a summary of the income and expense of the Authority for its past two financial years:

	Year ended December 31	
	1962	1961
Income—		
Tolls	\$ 9,556,000	\$ 9,548,000
Net income from operation of Cornwall-Roosevelt International Bridge	121,000	—
Other	1,015,000	899,000
	<hr/> 10,692,000	<hr/> 10,447,000

	Year ended December 31	
	1962	1961
Expense—		
Operating expense	2,592,000	2,602,000
Maintenance expense	2,087,000	1,728,000
Operating and maintenance supervision	1,232,000	1,071,000
Administrative expense	1,760,000	1,617,000
	7,671,000	7,018,000
Deduct: Portion of supervision and administrative expense applicable to non-toll canals	324,000	288,000
	7,347,000	6,730,000
Net operating income before providing for interest and for replacement of machinery and equipment	3,345,000	3,717,000
Interest on loans from the Government of Canada	15,397,000	13,793,000
Interest on contractors' claims and other accounts	164,000	—
Provision for replacement of machinery and equipment	888,000	200,000
	16,449,000	13,993,000
Net loss	\$13,104,000	\$10,276,000

Income for the year was adversely affected by the Government's decision to suspend tolls for the transit of the Welland Canal, effective July 18, 1962. According to statistical records, this suspension of tolls resulted in a loss of revenue of \$953,000 during the remainder of the year.

The extent by which revenues in 1962 fell short of meeting expenses in each of the two sections of the waterway and of the North Channel Bridge is shown in the following summary:

	St. Lawrence River Section	Welland Canal	North Channel Bridge	Total
Tolls	\$ 8,914,000	\$ 642,000	\$ —	\$ 9,556,000
Other income	217,000	798,000	121,000*	1,136,000
	9,131,000	1,440,000	121,000	10,692,000
Expenses of operation, maintenance and administration	2,931,000	4,416,000	—	7,347,000
Net operating profit (loss)	6,200,000	(2,976,000)	121,000	3,345,000
Interest on loans	13,397,000	1,795,000	205,000	15,397,000
Interest—other	153,000	11,000	—	164,000
Provision for replacement of machinery and equipment	503,000	379,000	6,000	888,000
	14,053,000	2,185,000	211,000	16,449,000
Net loss	\$ 7,853,000	\$ 5,161,000	\$ 90,000	\$13,104,000

* Excess of income over operating expense for the period from July 3 to December 31, 1962.

On the St. Lawrence River section the net operating profit of \$6,200,000 compares with profits of \$5,893,000 in 1961, \$5,178,000 in 1960 and \$5,894,000 in 1959. On the Welland Canal, the net operating loss of \$2,976,000 compares with losses of \$2,176,000 in 1961, \$1,726,000 in 1960 and \$633,000 in 1959.

Toll revenues for four full navigation seasons have been substantially less than had been anticipated by the Canadian and United States toll committees in 1958, as shown below:

	St. Lawrence River		Welland Canal	
	Estimated	Actual	Estimated	Actual
1959	\$ 9,301,000	\$ 7,105,000	\$ 2,060,000	\$ 1,224,000
1960	10,789,000	7,156,000	2,215,000	1,326,000
1961	12,277,000	8,086,000	2,369,000	1,462,000
1962	13,765,000	8,914,000	2,575,000	642,000*
	<u>\$46,132,000</u>	<u>\$31,261,000</u>	<u>\$ 9,219,000</u>	<u>\$ 4,654,000</u>

*Tolls for the transit of the Welland Canal were suspended as of July 18, 1962.

The Authority and the Saint Lawrence Seaway Development Corporation are to report to their respective Governments in 1964 on the adequacy of the toll structure to provide sufficient revenue to meet their operating costs and financial obligations. In this connection, it has been estimated that, beginning with 1964, the Authority will require revenues of about \$30 million each year for 46 years to meet operating costs and debt payments under the present financial arrangements. Tolls and other income in 1962 amounted to only \$10.7 million including \$642,000 of Welland Canal tolls which, as noted above, were suspended in 1962.

Section 25 of the St. Lawrence Seaway Authority Act provides that the Minister of Finance, with the approval of the Governor in Council, may from time to time make loans to the Authority. Section 13 of the Act, as amended, states that the aggregate of the amounts so borrowed under the Act and outstanding shall not at any time exceed \$345,000,000. At December 31, 1962 the Authority was indebted to the Government of Canada in respect of loans and deferred interest in the total amount of \$383,888,000, made up as follows:

Loans under section 25 of the Act	\$ 334,500,000
Interest to December 31, 1959—deferred	19,427,000
Interest for the year 1961—deferred	14,289,000
Interest for the year 1962—deferred	15,672,000
	<u>\$ 383,888,000</u>

Section 16 of the St. Lawrence Seaway Authority Act requires that the tolls shall be fair and reasonable and designed to provide a revenue sufficient to defray the cost to

the Authority of its operations, which costs shall include (a) payments in respect of interest on amounts borrowed by the Authority, (b) amounts sufficient to amortize the principal of amounts so borrowed over a period not exceeding fifty years, and (c) the cost of operating and maintaining the canals and works under the administration of the Authority, including all operating costs of the Authority and such reserves as may be approved by the Minister. Pursuant to these provisions, the original conditions under which loans were made to the Authority under section 25 of the Act required the payment of interest only in the first three full years of operation (through the year ending December 31, 1962) and thereafter payment of annual amounts sufficient to amortize over a period of 47 years (or by December 31, 2009) all loans and interest thereon.

The terms of the Authority's financing arrangements were amended by Order in Council P.C. 1961-1863 of December 29, 1961 and the principal amount of loans received to finance construction of the Seaway, together with interest previously deferred and all other interest now accrued or accruing up to December 31, 1963, is now to be repaid, together with current interest thereon, in 46 equal annual instalments commencing December 31, 1964.

In accordance with these financial arrangements, the operations for 1962 have been charged with interest amounting to \$15,397,000 (an additional amount of \$275,000 was included in construction costs), but this interest has not been paid and is included in the balance sheet as part of the Proprietary Equity. There was no charge to the year's operations with respect to amortization of the principal of the amounts borrowed.

The costs of operating and maintaining the canals and works under the administration of the Authority are defined under paragraph (c) of section 16 as including all operating costs of the Authority and such reserves as may be approved by the Minister. The Authority is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance costs and that the amortization over the 50 year period of the principal of the amounts borrowed, together with interest as required by subsections (a) and (b), and provision for replacement of machinery and equipment as mentioned below, meets the requirements of the Act. Accordingly no provision for depreciation has been included in the costs for the year under review.

Provision has been made during the year toward the cost of replacing machinery and equipment, including lock, bridge and building machinery and equipment, in the amount of \$2,710,000, of which \$1,822,000 was charged to Deficit Account, being additional provision required for the years 1959 to 1961, and \$888,000 was charged to expense in respect of the year ended December 31, 1962. The reserve for replacement of machinery and equipment, as thus augmented, amounted to \$3,343,000 at December 31, 1962. No provision has been made in the accounts for the replacement of buildings, lock gates and lock and bridge structures. The Authority considers that these Seaway works can be maintained in working condition at all times under its maintenance program.

The Governor in Council, by Order in Council P.C. 1963-572 of April 11, 1963 and pursuant to a 1956 agreement between the Canadian National Railway Company and

The St. Lawrence Seaway Authority, has determined that responsibility rests with The St. Lawrence Seaway Authority for the cost of installing a lift span in the Victoria Bridge at Montreal and of constructing an alternative bridge, containing a moveable span, to carry rail as well as highway traffic over the St. Lawrence Seaway. The Order accordingly provided that the Authority should reimburse the Canadian National Railway Company for its outlays of \$11,753,000 on these works, together with interest thereon computed to December 31, 1962 in the amount of \$2,228,000 and interest on the same amount of \$11,753,000 from December 31, 1962 to the date of reimbursement.

Because the borrowing powers of the Authority were close to their statutory limits of \$345 million and could not cover the above-noted reimbursement of \$11,753,000, the Governor in Council, by P.C. 1963-1140 of July 30, 1963, directed that the payment of the said amount be made from parliamentary appropriations for 1963-64 and that the matter of reimbursement by the Authority be reserved for later decision. The above Order in Council also provided that the interest payment to the Railway Company should be made from parliamentary appropriations but should not be recovered from the Authority as the lengthy delay in settlement of the matter could not be blamed on the Authority since, under the 1956 agreement, this was a matter for action by the Governor in Council.

The following table summarizes the expense and income and shows the remedial works and capital expenditure relating to the non-toll canals operated or administered by the Authority for the past two years:

	Year ended December 31	
	1962	1961
Expense—		
Operating expense	\$ 1,086,000	\$ 584,000
Maintenance expense	940,000	749,000
Operating and maintenance supervision	181,000	204,000
Portion of Authority's supervision and administrative expense applicable to non-toll canals	324,000	288,000
Employee benefits	107,000	111,000
	<hr/> 2,638,000	<hr/> 1,936,000
Income from rentals, wharfage, etc.	378,000	515,000
	<hr/> 2,260,000	<hr/> 1,421,000
Operating deficit	2,260,000	1,421,000
Remedial works—municipal properties	—	72,000
Capital expenditures	76,000	318,000
	<hr/> \$ 2,336,000	<hr/> \$ 1,811,000
Operating deficit, remedial works and capital expenditures (recovered from parliamentary appropriations)	<hr/> \$ 2,336,000	<hr/> \$ 1,811,000

The increase of \$502,000 in operating expense during 1962 is more than accounted for by increased grants in lieu of municipal taxes, which amounted to \$700,000 compared with \$128,000 in 1961.

Departmental Operating Activities

159. Extensive trading or servicing activities are operated by a number of departments, for example:

Agricultural commodities stabilization activities (operated by the Agricultural Stabilization Board under the Department of Agriculture);

Board of Grain Commissioners for Canada (under the Department of Agriculture);

Canadian Government Elevators (operated by the Board of Grain Commissioners under the Department of Agriculture);

National Film Board (reporting through the Secretary of State);

Post Office activities;

Public printing and stationery activities (under the Department of Defence Production);

Royal Canadian Mint (under the Department of Finance); and

Airport operations (under the Department of Transport).

160. Reference has been made in paragraph 128 to the statutory direction contained in the Financial Administration Act regarding the annual financial statements to be prepared by Crown corporations. There is, however, no statutory direction regarding the preparation of financial statements in respect of trading or servicing activities operated by departments. Revenues arising from such activities are included in the Public Accounts as revenues of the departments concerned, while the expenditures that involve cash outlays in the year are recorded as charges against the parliamentary appropriations for those departments. In addition, where statutory revolving funds are used to acquire materials, etc., statements summarizing the transactions in the revolving fund accounts are also included in the Public Accounts. In the few instances where financial statements showing operating results from departmental trading or servicing activities are included, the costs shown include only the direct costs arising from cash outlays by the departments concerned and do not include non-cash charges for depreciation, interest on capital, services provided by other departments, etc.

161. *Agricultural commodities stabilization activities.* The Agricultural Stabilization Board was established by the Agricultural Stabilization Act, 1957-58, c. 22, and has the responsibility of stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilizing measures take the form of either the purchase of commodities at prescribed prices, or payment to producers of amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold, or stabilizing payments for the benefit of producers. Pursuant to the Act, the Agricultural Commodities Stabilization Account was established in the Consolidated Revenue Fund and finances the activities of the Board, except for administrative expenses which are financed through annual parliamentary appropriations.

AUDITOR GENERAL'S REPORT

The results of the Board's operations for the year ended March 31, 1963 are summarized as follows in comparison with the corresponding amounts for the preceding year:

	Year ended March 31	
	1963	1962
Trading losses—		
Butter	\$45,239,000	\$ 2,482,000
Pork	7,528,000	2,017,000
Lamb	31,000	928,000
Cheese	1,025,000	676,000
Other	182,000	116,000
	<u>54,005,000</u>	<u>6,219,000</u>
Stabilization and deficiency payments—		
Milk	13,258,000	12,371,000
Sugar beets	1,983,000	1,670,000
Eggs	663,000	15,000
Wool	956,000	1,236,000
Other	991,000	495,000
	<u>17,851,000</u>	<u>15,787,000</u>
Net operating loss	<u>\$71,856,000</u>	<u>\$22,006,000</u>

The \$71,856,000 loss shown for 1962-63, recovered by Special Appropriation Act, 1963 (Vote 163) does not include administrative expenses of \$461,000 which were charged to the appropriation for "Agricultural Stabilization Act Administration" (Vote 40). Moreover, no charges are made for accounting services rendered by the Office of the Comptroller of the Treasury or for contributions to the Public Service Superannuation Account, and interest on the funds employed is not taken into consideration.

The following is a listing of the inventories, valued at cost, held by the Board at March 31, 1963 in comparison with the similar inventories at the close of the preceding year:

	As at March 31	
	1963	1962
Butter	\$ 129,173,000	\$ 112,312,000
Pork	10,072,000	19,383,000
Other	266,000	1,030,000
	<u>\$ 139,511,000</u>	<u>\$ 132,725,000</u>

The inventory of butter owned by the Board increased by \$16,861,000 during the year notwithstanding a resale program under which the price of butter was reduced by 12 cents per pound. The cost of this program amounted to \$42,273,000. Storage charges incurred in respect of butter which had accumulated during the years 1958 to 1962 amounted to \$4,422,000 during the year ended March 31, 1963.

162. *Board of Grain Commissioners for Canada.* This Board operates under the authority of the Canada Grain Act, R.S., c. 25, and consists of a chief commissioner and two other commissioners appointed by the Governor in Council. The Board has jurisdiction to enquire into any matter relating to: grading, weighing and storage of grain; unfair

or discriminatory operation of any elevator; and any other matter arising out of the performance of the duties of the Board.

The following is a comparative summary of the results of operations for the past two fiscal years:

	Year ended March 31	
	1963	1962
Expenditure—		
Salaries, allowances, etc.	\$ 4,258,000	\$ 4,286,000
Rent	188,000	188,000
Travel	122,000	125,000
Printing and stationery	57,000	58,000
General expenses	223,000	228,000
	<u>4,848,000</u>	<u>4,885,000</u>
Revenue—		
Inspection	1,584,000	1,946,000
Weighing	794,000	967,000
Registrations and cancellations	44,000	54,000
Licences	28,000	29,000
Sundry	2,000	5,000
	<u>2,452,000</u>	<u>3,001,000</u>
Excess of expenditure over revenue	<u>\$ 2,396,000</u>	<u>\$ 1,884,000</u>

Although the volume of grains handled during 1962-63 decreased considerably from the previous year, there was no significant decrease in the Board's expenditures since a large portion of these are fixed. No charges were included as expenditure of the Board for contributions to the Public Service Superannuation Account or for accounting and other services provided by government departments.

Revenue from inspections, weighing and registrations and cancellations varies directly with the volume of grain handled and therefore decreased in 1962-63 compared with the previous year. Fees for weighing services have not been revised since 1920 and for inspection services since 1949. In our previous Reports reference has been made to this situation and last year it was observed that the Standing Committee on Public Accounts recommended in 1961 that "steps be taken to bring revenues and expenditures into balance". 1962-63 was the ninth consecutive year in which deficits exceeded one million dollars.

163. *Canadian Government Elevators.* The Canadian Government Elevators are operated by the Board of Grain Commissioners for Canada under section 166 of the Canada Grain Act, R.S., c. 25. There are five interior elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton and Lethbridge; and a terminal elevator at Prince Rupert. The terminal elevator, located at Port Arthur, which had been leased to a company engaged in the grain trade was sold during the year to the former lessee (see paragraph 47).

The equity of the Crown in the Canadian Government Elevators at March 31, 1963 was \$10,833,000, represented by fixed assets costing \$10,366,000 acquired out of funds provided by parliamentary appropriations together with a surplus of \$467,000.

The following is a summary of the results of operations for the year under review with the comparable amounts for the preceding year:

	Year ended March 31	
	1963	1962
Revenue—		
Storage	\$ 822,000	\$ 1,129,000
Elevation	157,000	484,000
Cleaning	36,000	159,000
Drying	11,000	23,000
Other	37,000	196,000
	<u>1,063,000</u>	<u>1,991,000</u>
Expenditure—		
Salaries and wages	785,000	889,000
Maintenance—buildings, plant and equipment	257,000	362,000
Grants in lieu of taxes	112,000	112,000
Power	65,000	98,000
Other	95,000	107,000
	<u>1,314,000</u>	<u>1,568,000</u>
Net profit or (loss)	<u>(\$ 251,000)</u>	<u>\$ 423,000</u>

The operating revenue arises almost entirely from the handling of wheat and only to a minor extent from the handling of coarse grains. The sale and movement of wheat is the responsibility of the Canadian Wheat Board and it is to the economic advantage of this Board to ship all wheat direct to lakehead or tidewater ports without using facilities of interior elevators since, by so doing, "stop-off" and "diversion" charges are eliminated. When weather conditions at harvest time result in damp wheat and when lakehead and tidewater elevators are filled to capacity, the Board uses the drying and storage facilities of interior elevators. The fall of 1962 was exceptionally dry and there was a steady export from lakehead and tidewater terminals so that the facilities of the Canadian Government Elevators were not required by the Canadian Wheat Board to the same extent as in 1961. As a result, only 6,252,000 bushels of wheat were handled by the Elevators in 1962-63 compared with 25,171,000 in the previous year. This sharp decline in volume of wheat moving through the Elevators was largely responsible for the reduction in revenue. In addition, the effective date of the sale of the terminal elevator was August 1, 1962 so that only four months' rental was received in 1962-63.

The decrease in volume of grain handled also resulted in decreased expenditures, chiefly for casual labour, maintenance and power, but did not affect fixed costs such as grants in lieu of taxes and head office expenses. As noted in previous years' Reports, expenditures do not include amortization of elevator construction costs, charges for contributions to the Public Service Superannuation Account, or costs of accounting and other services provided by government departments.

A loss of \$72,000 by the Lethbridge elevator was its eighteenth consecutive annual loss. The accumulated deficits during this period amounted to \$690,000.

164. *National Film Board.* This Board was established in 1939 by the National Film Act, now R.S., c. 185, for the purpose of promoting the production and distribution of films in the national interest. Section 18 of the Act provides for the establishment of the National Film Board Operating Account in the Consolidated Revenue Fund. The Account is credited with amounts provided by annual parliamentary appropriations for "Administration, Production and Distribution of Films and Other Visual Materials" (National Film Board Vote 1), amounts transferred from appropriations of government departments in respect of work undertaken for them, and income arising from the sale and rental of films and other visual materials. The Account is charged with all expenditures made by the Board, other than those for the acquisition of capital equipment which are charged to a separate appropriation.

The equity of the Crown in the Board at March 31, 1963 was \$2,343,000 consisting of the balance of \$581,000 in the National Film Board Operating Account for working capital together with an investment of \$1,762,000 represented by the depreciated value of equipment transferred to the Board at its inception or purchased out of funds provided through parliamentary appropriations, less disposals.

Pursuant to the provisions of the Act, the Board maintains an accounting system on the accrual basis in addition to the accounts maintained by the Comptroller of the Treasury on the cash basis. The following is a summary of the results of the Board's operations for the year, compared with those of the preceding year:

	Year ended March 31	
	1963	1962
Expense—		
Production of films and other visual materials	\$ 2,975,000	\$ 3,008,000
Distribution of films	2,313,000	2,203,000
Administration and general services	900,000	860,000
Cost of production of films and other visual materials for government departments and others	1,557,000	1,247,000
Acquisition of equipment (net)	197,000	172,000
	<u>7,942,000</u>	<u>7,490,000</u>
Income—		
Sales of films and other visual materials	1,740,000	1,505,000
Rentals and royalties	585,000	877,000
Miscellaneous	25,000	15,000
	<u>2,350,000</u>	<u>2,397,000</u>
Net expense	<u>\$ 5,592,000</u>	<u>\$ 5,093,000</u>

As disclosed in a note to the Board's financial statements, the Statement of Income and Expense does not include charges for the value of accommodation, contributions to the Public Service Superannuation Account and accounting and other services provided by government departments to the extent of approximately \$1,083,000 for the year. Neither does the Statement include depreciation on equipment, estimated at \$330,000 for the year under review.

165. *Post Office activities.* The following is a summary of the Post Office transactions reported as departmental revenues and as charges against parliamentary appropriations in the Post Office section of Volume II of the Public Accounts for the year ended March 31, 1963 in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1963	1962
Gross postal revenue	\$ 222,300,000	\$ 213,518,000
Less: Expenses paid from revenue	29,528,000	29,839,000
Net postal revenue	192,772,000	183,679,000
Miscellaneous revenue	59,000	61,000
	<u>192,831,000</u>	<u>183,740,000</u>
Deduct: Expenditures from parliamentary appropriations—		
Operations	119,992,000	116,983,000
Transportation	63,935,000	62,719,000
Administration, financial services, etc.	5,417,000	5,301,000
	<u>189,344,000</u>	<u>185,003,000</u>
Excess of revenue over expenditure	\$ 3,487,000	(\$ 1,263,000)

This recorded excess of revenue over expenditure of \$3,487,000 for 1962-63 did not, however, take into consideration charges for services provided by other departments, including accommodation provided by the Department of Public Works estimated at \$23,411,000 or contributions to the Superannuation Account by the Department of Finance estimated at \$7,274,000. Neither were credits for mail franked by and sent to Members of Parliament and government departments, estimated at \$5,200,000, taken into account.

166. *Public printing and stationery activities.* Under the Public Printing and Stationery Act, R.S., c. 226, the Department of Public Printing and Stationery is charged with the execution of printing, lithographing or work of like nature and the procurement and distribution of paper, books and other articles of stationery required by the Senate, the House of Commons and the various government departments. The Department is also responsible for the sale of all books or publications issued by order of either or both Houses of Parliament or by any department. The expenditures of the Department are provided for through the medium of the Queen's Printer's Advance (a statutory working capital advance) and by annual parliamentary appropriations.

The basic operating expenses of the Department are charged to the Queen's Printer's Advance under section 37 of the Act. The Advance is credited with the value of printing work executed for and charged, at "factory cost", to the various departments, and also for the value of stationery supplied and charged to them at "purchase cost". The Act provides that the aggregate amount of the charges to the Advance after deducting therefrom any amounts due to the Queen's Printer shall not exceed \$4 million at any time. As at March 31, 1963 the balance of the Advance was \$4,730,000 and the accounts receivable totalled \$2,371,000, so that the effective balance for the purposes of the Act

was \$2,359,000, being an increase of \$197,000 over the corresponding figure at the end of the preceding year.

The following summary shows the operating results of the Queen's Printer's Advance for the year ended March 31, 1963 together with the comparable figures for the preceding year:

	Year ended March 31	
	1963	1962
Revenue	\$18,990,000	\$19,543,000
Expenditure—		
Direct materials	11,954,000	11,996,000
Direct labour	3,857,000	4,296,000
Other factory expenses	3,074,000	2,729,000
Work sub-contracted	373,000	338,000
Decrease or (increase) in inventories	(192,000)	248,000
	19,066,000	19,607,000
Discount earned, etc.	76,000	64,000
	9,000	11,000
Excess of expenditure over revenue	\$ 67,000	\$ 53,000

The expenditure shown above does not include the value of services and facilities including light, power, telephone, heating, amortization of buildings and equipment, etc., provided free of charge by other government departments and through the medium of the Department's own appropriations.

In addition to the expenditures recorded through the Queen's Printer's Advance, the other expenditures of the Department are charged to eight different parliamentary appropriations and totalled \$3,977,000 for the year under review. The following compares these expenditures with those for the preceding year:

	Year ended March 31	
	1963	1962
Departmental administration	\$ 771,000	\$ 751,000
Purchasing, stationery and stores (largely for salaries and wages of procurement and stationery stores personnel and repairs to office equipment)	1,201,000	1,264,000
Distribution of official documents	685,000	597,000
Printing and binding official publications for sale and distribution to departments and the public	1,012,000	938,000
Printing of <i>Canada Gazette</i>	169,000	139,000
Printing and binding the annual Statutes	26,000	35,000
Plant equipment and replacements	106,000	239,000
Reimbursement of the Queen's Printer's Advance for the value of stores which have become obsolete, unserviceable, lost or destroyed	7,000	35,000
	\$ 3,977,000	\$ 3,998,000

For the year ended March 31, 1963 credits to Revenue totalled \$1,660,000, most of which resulted from the sales of publications to the general public.

167. *Royal Canadian Mint.* The Royal Canadian Mint operates under Part II of the Currency, Mint and Exchange Fund Act, R.S., c. 315, and provides "facilities for making coins of the currency of Canada, and for melting, assaying and refining gold".

Revolving fund accounts are maintained for the recording of transactions in gold, silver, and other metals acquired by the Mint for the purpose of its operations. The following is a summary of the charges and credits to these accounts during the year under review in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1963	1962
Inventories at beginning of year	\$20,655,000	\$13,951,000
Add: Purchases during year—		
Gold	91,020,000	85,607,000
Silver	16,914,000	14,150,000
Other metals	1,408,000	1,823,000
	<u>109,342,000</u>	<u>101,580,000</u>
Gold revaluation	218,000	417,000
	<u>130,215,000</u>	<u>115,948,000</u>
Deduct: Sales—		
Gold sales	91,121,000	87,260,000
Silver coin issues, at face value	15,853,000	11,769,000
Other coin issues, at face value	4,961,000	3,806,000
Silver bullion sales	49,000	48,000
Sundry credits		4,000
	<u>111,984,000</u>	<u>102,887,000</u>
	<u>18,231,000</u>	<u>13,061,000</u>
Add: Transfers to Revenue—		
Gain on coinage operations	8,920,000	7,562,000
Gold refining gain	61,000	32,000
	<u>8,981,000</u>	<u>7,594,000</u>
Inventories at end of year	<u>\$27,212,000</u>	<u>\$20,655,000</u>

The transfers to Revenue of \$8,981,000 from the revolving fund accounts, together with other revenue of \$725,000 (\$550,000 in 1961-62), making a total of \$9,706,000 for the year ended March 31, 1963, are recorded in the Public Accounts as revenue of the Department of Finance. Offset against this were expenditures totalling \$1,830,000 charged to parliamentary appropriations under the Department of Finance as follows: administration, operations and maintenance, \$1,768,000 (\$1,558,000 in 1961-62); and construction or acquisition of equipment, \$62,000 (\$117,000 in 1961-62).

The net result of these credits and charges was an excess of revenue over expenditure of \$7,876,000 compared with \$6,469,000 in 1961-62, an increase of \$1,407,000. These recorded results do not, however, take into consideration charges for services provided by other departments including accommodation provided by the Department of Public Works, the services of the R.C.M.P. and contributions to the Superannuation Account

by the Department of Finance—nor is any charge included for interest on funds employed.

In paragraph 187 of last year's Report reference was made to a reduction from 20 cents per ounce to 11 cents per ounce in the charge paid by depositors who deposit gold with the Mint for sale to the Crown, to cover the cost of marketing the gold outside of Canada. It was noted that as there had been no reduction in the gold handling charge of 13.8 cents per ounce assessed by the Bank of Canada on gold purchased from the Mint, a loss to the Mint of \$62,063 had resulted during 1961-62. This situation was corrected with effect from April 1, 1962 by a reduction from 13.8 cents to 11 cents per ounce in the charge made by the Bank of Canada.

168. *Airport operations.* The capital investment of the Department of Transport in airports as at March 31, 1963 was \$579,085,000 compared with \$532,917,000 at the same date in the preceding year, a net increase of \$46,168,000 for the year under review.

The revenue from civil aviation airport operations for the year ended March 31, 1963 amounted to \$15,519,000 compared with \$14,625,000 in the preceding year. The summary which follows gives details of this revenue, together with the comparable amounts for the preceding year:

	Year ended March 31	
	1963	1962
Aircraft landing fees:		
Domestic	\$ 3,235,000	\$ 3,006,000
Trans-oceanic	3,074,000	2,858,000
Trans-border	753,000	686,000
Other	23,000	30,000
	<u>7,085,000</u>	<u>6,580,000</u>
Rentals:		
Office, shop and garage space	1,239,000	1,322,000
Living quarters	386,000	382,000
Hangar	197,000	181,000
Other	1,077,000	948,000
	<u>2,899,000</u>	<u>2,833,000</u>
Concessions:		
Gasoline and oil	1,881,000	1,693,000
Other	1,824,000	1,516,000
	<u>3,705,000</u>	<u>3,209,000</u>
Miscellaneous revenue	1,830,000	2,003,000
Total revenue	<u>\$15,519,000</u>	<u>\$14,625,000</u>

The parliamentary appropriation for "Airports and Other Ground Services—Operation and Maintenance" (Transport Vote 145) was charged with expenditures totalling \$19,755,000 for 1962-63, a decrease of \$1,007,000 from the corresponding figure of \$20,762,000 for the preceding year.

The excess of expenditure (excluding new construction) on airways and airports over the revenue received, as reflected in the Department of Transport section of the 1962-63 Public Accounts, was therefore \$4,236,000, a decrease of \$1,901,000 from the preceding year's figure of \$6,137,000.

The results thus recorded are on a cash basis and do not include any provision for amortization of airport construction costs, interest on funds employed, or other costs such as a portion of the expenditure charged as air services administration, which would have to be taken into consideration if the actual net costs of civil aviation airport operations were to be determined. However, the Department has maintained accounts on an accrual basis and has prepared therefrom periodic financial statements for management purposes in respect of operations at the 16 major airports which together account for approximately 82% of the revenue from civil aviation airport operations. A consolidation of these statements, which includes a provision for depreciation of civil aviation facilities (though not for the other costs referred to) for the year ended March 31, 1963 is given as an appendix to the Department's section of the Public Accounts.

169. In previous Reports we have expressed the view that in order that Parliament may gain a clear understanding of the true financial results of departmental operating activities, without necessarily disturbing the present basis of providing appropriations, consideration should be given to the inclusion in the Public Accounts of financial statements of the various activities designed to reflect the over-all operating results in a clear, concise manner. Such operating statements could be adjusted to the accrual basis and would include charges (on a memorandum basis, in the case of non-cash charges) for amortization of building and equipment costs, interest on funds employed, services provided by other departments, etc. A reconciliation could be prepared between the operating results reflected by each such statement and the cash results indicated by the related credits to departmental revenues and charges to departmental appropriations. Balance sheets could also be prepared which would indicate the value of the assets employed by the several activities at the year-end. If statements of this type were produced, the Audit Office would be prepared to examine and certify them.

Paragraph 87 of the Fifth Report 1961 of the Public Accounts Committee reads:

"The Committee feels that it would be desirable, in order that members have a clear understanding of the true financial results of departmental trading or servicing activities, such as those of the Department of Public Printing and Stationery and airport operations of the Department of Transport, were overall financial statements included in the Public Accounts without undue cost or staff increases."

We are continuing to follow this matter up with departments having operating activities and to make suggestions regarding the preparation of financial statements along the lines proposed. As was the case last year, reluctance was found on the part of certain agencies to take the lead in preparing statements on the basis recommended,

in the absence of encouragement from the Treasury Board. However, early in the present fiscal year such encouragement was given to at least one of the agencies and it is hoped that the financial statements for 1963-64 will be prepared substantially as recommended.

Special Audits and Examinations

170. In addition to the examinations of departmental accounts and the audits of the accounts of Crown corporations, already referred to in this Report, the following special audits and examinations were made by the Audit Office during the year, most of them in accordance with specific directions contained in various statutes: Army Benevolent Fund Board, Atlantic Development Board, the Canada Council, the Custodian, Exchange Fund Account, National Gallery of Canada, National Productivity Council, Public Printing and Stationery stores, The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children, Royal Canadian Mint stocks, Unemployment Insurance Fund and Yukon Territorial Government.

171. *Army Benevolent Fund Board.* The accounts of this Board were examined for the year ended March 31, 1963 pursuant to the requirement of section 11 of the Army Benevolent Fund Act, R.S., c. 10, and the relative report was addressed to the Chairman and Members of the Board, with a copy being provided to the Minister of Veterans Affairs.

During the year, receipts amounted to \$236,000 of which \$224,000 was derived from interest on funds on deposit with the Receiver General of Canada and \$12,000 from interest on Government of Canada bonds. Disbursements totalled \$504,000 consisting of \$426,000 in grants to or on behalf of World War II veterans and \$78,000 for service and administrative expenses. The latter amount was after making deductions for a grant of \$18,000 provided for by an appropriation of the Department of Veterans Affairs and for a fee of \$30,000 from the Canadian Army Welfare Fund for managing the financial program of that fund.

After absorbing the excess of disbursements over receipts in the amount of \$268,000, the balance at credit of the Army Benevolent Fund at March 31, 1963 was \$6,014,000 represented by \$5,754,000 on deposit with the Receiver General of Canada, \$256,000 invested in Government of Canada bonds and \$4,000 of accountable advances and prepaid expenses.

172. *Atlantic Development Board.* This Board was established by the Atlantic Development Board Act, 1962-63, c. 10. Under the provisions of the Act, as amended by Chapter 5, 1963, the objects of the Board are to inquire into and report to the responsible Minister upon programs and projects for fostering the economic growth and development of the Atlantic region of Canada, and to consider, report and make recommendations to the Minister concerning programs and projects.

Funds for the Board's 1962-63 requirements were provided by an allotment of \$7,000 from Finance Vote 50 (Miscellaneous, Minor and Unforeseen Expenses). Expenditures

for the period from December 20, 1962 to March 31, 1963 amounted to \$5,032, representing administrative costs.

Section 19 of the Atlantic Development Board Act states:

“The Chairman of the Board shall, within three months after the termination of each fiscal year, transmit to the Minister a statement relating to the activities of the Board for that fiscal year, including the financial statements of the Board and the Auditor General’s report thereon, and the Minister shall cause such statement to be laid before Parliament within fifteen days after the receipt thereof or, if Parliament is not then sitting, on any of the first fifteen days next thereafter that Parliament is sitting.”

The statement relating to the short initial financial period had not been tabled when Parliament adjourned on August 2, 1963.

173. *The Canada Council.* The Council was established under the Canada Council Act, 1957, c. 3, “to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences”.

A report on the audit of the Council’s accounts for the year ended March 31, 1963 was made to the Council and to the Prime Minister, as required by the Act.

An Endowment Fund of \$50 million was established under the Act. The return on the investments of the Fund is used to meet administrative expenses and other expenditure for purposes of the Act, except for capital assistance grants to universities in respect of building construction projects. Permissible expenditures relate to the following in respect of the arts, humanities and social sciences: grants, scholarships and awards; sponsorship of exhibitions, performances and publications; exchanges with other countries and organizations or persons therein of knowledge and information; representation and interpretation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

The following is a summary of the results of the Endowment Fund operations for the year ended March 31, 1963, together with comparable figures for the preceding year:

	Year ended March 31	
	1963	1962
Surplus at April 1	\$ 273,000	\$ 418,000
Income—interest and dividends	3,011,000	2,955,000
	<hr/> 3,284,000	<hr/> 3,373,000
Expenditure—		
Grants	2,721,000	2,551,000
Canadian National Commission for UNESCO	78,000	57,000
Administrative and other expenses	402,000	467,000
Special project—The Canada Council Train	—	25,000
	<hr/> 3,201,000	<hr/> 3,100,000
Surplus at March 31	\$ 83,000	\$ 273,000

The Council is required to provide the Secretariat for the Canadian National Commission for UNESCO. The salary costs involved for this Secretariat were included in prior years under "administrative and other expenses". For 1962-63 these costs, amounting to \$23,000, were included in the above expenditure item of \$78,000 in order to show more accurately the costs of servicing the Commission.

A University Capital Grants Fund of \$50 million was established under the Act in order that grants could be made to universities and similar institutions of higher learning by way of capital assistance for building construction projects intended for use in furthering the arts, humanities and social sciences. These grants may be paid out of the principal and accumulated income of the Fund.

The following is a summary of the University Capital Grants Fund transactions for the year ended March 31, 1963, together with comparable figures for the preceding year:

	Year ended March 31	
	1963	1962
Balance at April 1	\$30,333,000	\$34,342,000
Add:		
Interest earned on investments	1,521,000	1,620,000
Net profit on disposal of securities	365,000	904,000
	32,219,000	36,866,000
Deduct:		
Authorized grants	6,275,000	6,533,000
Balance at March 31	\$25,944,000	\$30,333,000

The \$25,944,000 balance of the University Capital Grants Fund at March 31, 1963 included \$14,280,000 representing interest earned and profits realized since the inception of the Fund. No portion of this accumulated interest and profits had been allocated by the Council to the provinces or distributed to the universities at the end of the fiscal year.

In paragraph 92 of its Fifth Report 1961, the Public Accounts Committee, noting that no allocation of interest and profits had been made, recommended "that the Council seek to conclude this matter without further delay". In submitting my follow-up report dated October 30, 1963 to the Public Accounts Committee on the action taken by departments and other agencies in response to recommendations made by the Committee in 1961, reference was made to this recommendation. It was stated that in August 1963, following further efforts to resolve the problem presented in the interpretation of subsection (2)(b) of section 17 of the Canada Council Act, the Council had reconfirmed a resolution passed at a February 1962 meeting, but which by later resolution was left in abeyance, that the 1956 census be accepted as the basis for distribution of the University Capital Grants Fund, and that "the 'hotch-pot' or trust fund approach be accepted for distribution of the income and profits on this total fund". It was further stated that the Council officers had been directed to prepare revised figures based on this approach and to advise member institutions of their entitlement.

While reviewing the follow-up report, the Public Accounts Committee on November 18, 1963 examined this matter with the Chairman and members of the Canada Council who were in attendance. At this meeting I advised the Committee that I had informed the Council that our study of the texts of the legal opinions received by the Council on the proposed method of allocation and distribution had caused us to question whether the proposed method of distribution would be in accordance with the provisions of the Canada Council Act. The matter remains under review by the Committee at the present time.

The Council may, under section 20 of the Act, acquire money, securities or other property by way of gift, bequest, or otherwise, and may expend, administer or dispose of them subject to the terms upon which they are made available to the Council. In previous years gifts were comparatively small in amount and unexpended balances were accounted for in the balance sheet of the Endowment Fund. In February 1963, however, the Council accepted the offer of a gift of approximately \$4,250,000 from an anonymous donor to be used to establish a special scholarship fund, the income from which is to provide fellowship and scholarship grants to Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research or scientific institutions, or other equivalent or similar institutions in Canada. \$1,079,000 of the gift was received prior to March 31, 1963 and payment of the balance is to be extended over the next several years. Because of the size of, and the terms associated with this gift, the Council approved of the presentation of a separate balance sheet as at March 31, 1963, designated "Special Funds", accounting for moneys or property received pursuant to section 20 of the Act to a total of \$1,099,000.

174. *The Custodian.* In accordance with Regulation 6 of the Revised Regulations respecting Trading with the Enemy (1943) as set out in the schedule to the Trading with the Enemy (Transitional Powers) Act, 1947, c. 24, the Secretary of State is appointed Custodian "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him" by virtue of the Regulations. The Under-Secretary of State acts as Deputy Custodian and the Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. A report on the audit of the Custodian's accounts for the year ended December 31, 1962 was made to the Secretary of State.

The book value of the assets vested in the Custodian, which were valued in accordance with bases explained in an addendum to the statement of assets and liabilities, decreased by \$571,000 to \$4,138,000 at December 31, 1962. A transfer of \$500,000 to the Minister of Finance for the War Claims Fund, and releases of \$311,000 to former owners or their beneficiaries, offset in part by an appreciation of \$256,000 in the value of remaining vested assets, accounted for the greater part of the decrease.

Under the Regulations referred to above, the Custodian is authorized to charge against all property investigated, controlled or administered by him, whether it has been vested in him or not, a fee for services rendered not exceeding 2% of the value of the property including the income therefrom. He is also permitted to employ such part of

the property vested in him or the proceeds therefrom as may be necessary to pay the expenses incurred in the administration of the Regulations.

All administration fees and any income received from vested assets which consist of or are converted into cash or Government of Canada bonds are credited to the Custodian's Administration Account, from which all expenses of the office are paid. As a result, the Custodian has accumulated, from September 2, 1939 to December 31, 1962, a surplus of \$4,468,000—largely invested in Government of Canada bonds.

The following is a summary of the income and expense of the Custodian for the year ended December 31, 1962 together with the comparable figures for the preceding year:

	Year ended December 31	
	1962	1961
Income—		
Fees on assets released from administration	\$ 23,000	\$ 2,000
Interest on investments and bank deposits	207,000	194,000
Other income	8,000	3,000
	<u>238,000</u>	<u>199,000</u>
Expense—		
Salaries	110,000	106,000
Other expense	8,000	14,000
	<u>118,000</u>	<u>120,000</u>
Surplus for year	<u>\$ 120,000</u>	<u>\$ 79,000</u>

The fees earned on the transfer to the Minister of Finance and the assets released to former owners, or their beneficiaries, to which previous reference has been made, account for most of the increase of \$21,000 for fees on assets released from administration.

175. *Exchange Fund Account.* The Exchange Fund Account, first established by the Exchange Fund Act, 1935, c. 60, and continued by the Foreign Exchange Control Act, 1946, c. 53 now operates under Part III of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The purpose of the Account is "to aid in the control and protection of the external value of the Canadian monetary unit".

The accounts of the Exchange Fund for its financial year ended December 31, 1962 were examined pursuant to the requirement of section 27 of the Currency, Mint and Exchange Fund Act and the relative report was addressed to the Minister of Finance in accordance with established practice. The section requires that a special certificate be given annually to Parliament, and in accordance with that requirement, it is now certified that the transactions in connection with the account for the year ended December 31, 1962 have been in accordance with the provisions of the Act, and that the records showed truly and clearly the state of the account.

The following is a summary of the transactions in the Account for the year ended December 31, 1962 compared with the transactions in the previous financial year:

	Year ended December 31	
	1962	1961
Balance at January 1	\$ 2,162,606,000	\$ 1,929,536,000
Deduct:		
Paid into Consolidated Revenue Fund in respect of earnings	32,606,000	32,536,000
	<u>2,130,000,000</u>	<u>1,897,000,000</u>
Add:		
Advances (net) received during the year	521,000,000	233,000,000
Earnings on investments during the year (to be paid into the Consolidated Revenue Fund)	35,227,000	32,606,000
	<u>2,686,227,000</u>	<u>2,162,606,000</u>
Balance at December 31		
Represented by:		
Canadian dollars	160,000	844,000
United States dollars and securities	1,941,310,000	1,128,605,000
Gold	763,169,000	987,296,000
Suspense Account		3,000
	<u>2,704,639,000</u>	<u>2,116,748,000</u>
Surplus (Deficit)	<u>18,412,000</u>	<u>(45,858,000)</u>
	<u>\$ 2,686,227,000</u>	<u>\$ 2,162,606,000</u>

In the year under review the value of the United States dollar increased from \$1.04 11/32 Canadian at December 31, 1961 to \$1.07 23/32 at December 31, 1962 and the deficit of \$45,858,000 at December 31, 1961 was replaced by a surplus of \$18,412,000 at December 31, 1962. This gain of \$64,270,000 resulted from the following:

Net profit on sales of U.S. securities	\$ 2,846,000
Gain on sales of gold	2,095,000
Exchange valuation credits (net)	59,329,000
	<u>\$64,270,000</u>

It should be noted that the surplus of \$18,412,000 at December 31, 1962 would have been considerably larger at that date if losses accumulated in the Account, and representing a cost of exchange management since its inception, had been written off in the central Government accounts. In paragraph 141 of our Report to the House of Commons for the fiscal year ended March 31, 1962 we recommended that provision be made for transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and revaluation of holdings of gold and foreign currencies. This recommendation is now repeated.

176. *National Gallery of Canada.* The Gallery was incorporated under the National Gallery Act, 1913, c. 33, now R.S., c. 186. Its objects and powers comprise the development, maintenance, care and management of the national gallery, the acquisition of works of art and generally the promotion of the public interest in art in Canada.

Pursuant to section 9 of the National Gallery Act, the Gallery's accounts were audited for the year ended March 31, 1963 and a report was addressed to the Secretary of State. A more detailed report to the Board of Trustees contained our comments and recommendations regarding various administrative weaknesses. Most of these weaknesses had been brought to the attention of the Board in previous reports but the steps taken, although resulting in some improvement in 1962-63, for the most part proved to be ineffective. Since the year end, the Gallery has added an intermediate administrative officer whose principal responsibility will be the implementation and effective operation of an integrated system of internal control.

The following is a comparative summary of expenditures for the past two years:

	Year ended March 31	
	1963	1962
Administration, operation and maintenance—		
Salaries and wages	\$ 348,000	\$ 328,000
Professional and special services (including security personnel)	155,000	161,000
Other	308,000	365,000
	811,000	854,000
Purchases of works of art	138,000	243,000
Expenditure from trust funds	—	3,000
	<u>\$ 949,000</u>	<u>\$ 1,100,000</u>

The operating expenses of the National Gallery are largely met from annual parliamentary appropriations, with the remainder paid from a special operating account. Funds for the acquisition of works of art are provided through the National Gallery Purchase Account to which are credited moneys appropriated by Parliament for that purpose. Funds from the National Gallery Special Operating Account are also used to acquire works of art.

The 1962-63 Public Accounts record a charge of \$200,000 under Vote 5 for a payment to the National Gallery Purchase Account for the purpose of acquiring works of art. Of this amount, \$33,000 was not credited to the Purchase Account until August 1963 following the passing of the Special Appropriation Act 1963, assented to on July 22, and therefore could not be reflected in the Gallery's financial statements for the year ended March 31, 1963. This additional amount increased the balance recorded in the Purchase Account as at March 31, 1963 to \$82,000.

As stated in last year's Report, parliamentary control may be weakened by the supplementing of specific appropriations for purchases of works of art by expenditures from the National Gallery Special Operating Account, and the crediting of the Special Operating Account with the proceeds from the sale of Gallery publications, fees from exhibitions and lectures, and service charges when the costs of producing this revenue are mainly met from the parliamentary appropriation for operating expenses.

177. *National Productivity Council.* This Council was established by the National Productivity Council Act, 1960-61, c. 4, with the objects of promoting and expediting continuing improvement in productive efficiency in the various aspects of Canadian

economic activity. Operations were conducted from a head office in Ottawa and regional offices in Halifax, Quebec, Toronto and Winnipeg.

The Economic Council of Canada Act, 1963, c. 11, enacted on August 2, 1963, provided for the repeal of the National Productivity Council Act and the payment of any amounts standing to the credit of the National Productivity Council, after the payment of the Council's debts and obligations, to the Receiver General of Canada to be held and applied toward the payment of the expenses of the Economic Council of Canada.

The following is a summary of the income and expenses of the National Productivity Council for the year ended March 31, 1963:

Income—	
Statutory grant	\$ 150,000
Donations	86,000
Government's contributions under section 16 of the Act	83,000
Interest	5,000
	<hr/>
	\$ 324,000
Expense—	
Salaries and employees' benefits	131,000
Donations to approved projects	119,000
Travel	68,000
Publicity	18,000
Office equipment and expenses	15,000
Professional services	14,000
Other conference and seminar expenses	13,000
Telephone, telegram, postage and express	13,000
Rent and accounting services	7,000
Other	2,000
	<hr/>
	400,000
	<hr/>
	(76,000)
Deduct—	
Travel and living expenses of Council members provided by statutory appropriation (recorded above)	15,000
Credits for rent and accounting services provided by the Government of Canada (recorded above)	7,000
	<hr/>
	22,000
	<hr/>
Excess of expense over income	\$ (54,000)
	<hr/>

The statutory grant was received under the provisions of section 15 of the National Productivity Council Act as the second payment authorized under the section, which directed the Minister of Finance to pay to the Council, from the Consolidated Revenue Fund, for each of the first three years after the coming into force of the Act, the sum of \$150,000 and thereafter such amounts as may have been appropriated by Parliament for the purpose.

Section 16 of the Act provided that where the Council, during the first three years of its existence, acquired by gift, donation or bequest any asset from a person other than Her Majesty, the Minister of Finance should pay out of the Consolidated Revenue Fund, in addition to the amount paid under section 15 in any year, an amount equal to the value of the property so acquired. During the year the Council received donations totalling \$86,000, of which \$83,000 was from sources other than Her Majesty and was

accordingly matched by contributions by the Government. The remaining \$3,000 was received from Her Majesty in right of several provinces and was not eligible for contributions under the provisions of section 16.

Section 19 of the National Productivity Council Act provided as follows:

"The Chairman of the Council shall, within three months after the termination of each fiscal year, submit to the Ministers of Trade and Commerce and of Labour a report of all proceedings under this Act for that fiscal year, including the financial statements of the Council, and the Auditor General's report thereon, and the Minister of Trade and Commerce shall cause such reports to be laid before Parliament within fifteen days after the receipt thereof or, if Parliament is not then sitting, on any of the first fifteen days next thereafter that Parliament is sitting."

No such report of proceedings under the National Productivity Council Act was tabled in Parliament before adjournment on August 2, 1963. We were informed by officers of the Council that a report on all proceedings under the Act up to August 2, 1963, the date of repeal of the National Productivity Council Act, along with the financial statements and the Auditor General's report for the year ended March 31, 1963, was presented to the Minister of Trade and Commerce on August 2, 1963.

178. *Public Printing and Stationery stores.* Section 34(2) of the Public Printing and Stationery Act, R.S., c. 226, requires the Auditor General to "annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied". During 1962-63, as in previous years, such tests were made as were considered necessary to establish that the controls exercised by the Department were operating satisfactorily. In addition, we participated in the physical inventory checking by departmental personnel. A report on the examination was made to the Minister of Industry.

At March 31, 1963 the inventories of stationery, printing materials and supplies held by the Department totalled \$2,594,000, and compared with the inventories at the end of the previous year as follows:

	As at March 31	
	1963	1962
Stationery supplies	\$ 705,000	\$ 611,000
Typewriter and office machine parts	152,000	152,000
Paper	398,000	361,000
Printing and maintenance supplies	473,000	464,000
Printing units	342,000	362,000
Miscellaneous	72,000	62,000
Work in process	452,000	339,000
	<u>\$ 2,594,000</u>	<u>\$ 2,351,000</u>

179. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* The Queen Elizabeth II Canadian Research Fund Act, 1959, c. 33, established this Fund to assist individuals or organizations to undertake or carry on research into the diseases of children, and the causes, prevention and treatment of such diseases. A Board

of Trustees consisting of a chairman and six other trustees is responsible for the management and administration of the Fund. As required by the Act, the National Research Council provides, without charge, such secretarial and other administrative and technical services and facilities as may be required by the Board, whose head office is in Ottawa. A report on the audit of the Fund's accounts for the year ended March 31, 1963, which contained no qualification, was made to the Board and to the Prime Minister as required by the Act.

The Act provided \$1,000,000 for the Fund and also permits the Board to accept gifts for its purposes. A summary of the Fund's transactions for the year ended March 31, 1963 compared with the preceding year is given below:

	Year ended March 31	
	1963	1962
Balance at April 1	\$ 1,003,000	\$ 1,058,000
Add:		
Interest on investments	57,000	56,000
Gifts	1,000	1,000
	<u>58,000</u>	<u>57,000</u>
	1,061,000	1,115,000
Deduct:		
Awards approved during year	12,000	112,000
Balance at March 31	<u>\$ 1,049,000</u>	<u>\$ 1,003,000</u>

Two categories of awards have been approved by the Board of Trustees, namely, "Queen Elizabeth II Fellowships" and "Queen Elizabeth II Scientists". Awards in the first category are made to doctors of medicine or "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of children, and range in value from \$3,500 to \$5,000 per annum. During the year under review two new and one renewal fellowships were approved totalling \$12,000. The second category covers the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the Board of Trustees with regard to these appointments provide for payments of \$10,000 per annum for the first three years and \$5,000 for the next following three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without further recourse to the Fund. There were no appointments under this category during the year under review. The Fund is presently giving support to three appointees of prior years. At March 31, 1963 the outstanding liability of \$95,000 in respect of these appointments was included in the total provision of \$111,000 for awards approved, appearing in the balance sheet of the Fund as at that date.

180. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenue and expenditure accordingly form part of the departmental revenue and expenditure and are examined as such. However, section 20 of the Currency, Mint and Exchange Fund Act, R.S., c. 315 requires that the Auditor General shall "at least once in each year inspect the store of bullion and coin at the

Mint". Such an inspection was made as at February 28, 1963 and a report thereon was made to the Deputy Minister of Finance. The stocks of bullion and metals at cost, and coin at face value, held by the Mint at February 28, 1963 amounted to \$21,407,000, comprising: gold, \$2,466,000; silver, \$18,420,000; nickel, \$71,000; bronze, \$450,000.

181. *Unemployment Insurance Fund.* The Unemployment Insurance Act, 1940, c. 44, whose purpose was to provide for insurance against unemployment and to maintain a national employment service, established this Fund as a special account in the Consolidated Revenue Fund to which all contributions from insured employees and their employers and Government of Canada contributions equivalent to one-fifth of the total employee-employer contributions, together with interest on investments, were to be credited—and to which benefits and other payments under the Act were to be charged. The Fund now operates under the Unemployment Insurance Act, 1955, c. 50 which, like the Act it superseded, is administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the Governor in Council. Particulars of the unemployment insurance administration are given in paragraph 63.

Financial statements showing the state of the Fund as at the end of the fiscal year and the operations of the Fund during the year are prepared annually by the Unemployment Insurance Commission. In my 1960 Report (paragraph 109) I drew attention to the fact that the Act did not provide for these financial statements to be audited. The Public Accounts Committee took note of this and in its Fifth Report 1961 (paragraph 82) recommended that these statements be required by statute to be prepared by the Commission and reported upon by the Auditor General. Although the Act has not yet been amended, the Commission has submitted its financial statements for the past two years to the Audit Office for examination, and the statements for the year ended March 31, 1963, together with my report thereon to the Minister of Labour, are reproduced in the Public Accounts, Volume II, pages 17.16 to 17.18.

The following is a comparative summary of the Fund's transactions for the past three years, together with the year-end balances at the credit of the Fund:

	1960-61	1961-62	1962-63
Income—			
Contributions from employers and employees .. \$	275,273,000	\$ 277,789,000	\$ 286,430,000
Contributions from Government of Canada	55,055,000	55,558,000	57,286,000
Other income	10,043,000	6,889,000	2,570,000
Less: Loss on sale of securities	7,269,000	622,000	
	2,774,000	6,267,000	2,570,000
	<u>333,102,000</u>	<u>339,614,000</u>	<u>346,286,000</u>
Expenditure—			
Benefit payments	513,906,000	454,740,000	403,191,000
Interest on advances	403,000	2,961,000	
	<u>514,309,000</u>	<u>457,701,000</u>	<u>403,191,000</u>
Excess of expenditure over income	\$ 181,207,000	\$ 118,087,000	\$ 56,905,000
Balance at credit of the Fund	\$ 184,685,000	\$ 66,598,000	\$ 9,693,000

The annual deficits shown above do not include the administrative expenses of the Commission which are financed out of the parliamentary appropriations to the Commission under the Department of Labour (see paragraph 63). Also not included are: the value of accommodation for the Commission's regional and local offices throughout Canada, contributions to the Public Service Superannuation Account, accounting services rendered by the Comptroller of the Treasury and other services provided by government departments, all of which were estimated at \$9,754,000 for the year.

The deficit of \$56,905,000 in 1962-63 was lower than that of the preceding year by \$61,182,000. This substantial reduction for the second successive year is again attributable to fewer benefit payments and shorter benefit periods. The average monthly percentage of the insured population drawing benefit in 1962-63 was 8.1% compared with 9.3% in 1961-62 and 10.7% in 1960-61. Initial benefit claims allowed in 1962-63 numbered 1,292,476 compared with 1,370,738 in 1961-62 and 1,546,414 in 1960-61 and the average number of benefit weeks paid was 13.4 in 1962-63 compared with 14.3 in 1961-62 and 16.4 in 1960-61.

The Act provides that amounts in the Fund that are not currently required shall be invested by the Commission in obligations of, or guaranteed by the Government of Canada. Over the years, securities in substantial sums were acquired during the summer months when contributions and other income exceeded benefit payments and were liquidated, as required, during the winter months when the flow of funds was reversed. Up to a point in 1961 the Commission's tradings were exclusively in public issues of Government of Canada bonds and, to a lesser extent, Canadian National Railways bonds. In the 1962 Report (paragraph 200) we referred to a change in policy which had resulted in the takeover by the Department of Finance on September 29, 1961 of the entire portfolio of the Fund at its book value of \$240,454,000 in exchange for the discharge of its liability to the Minister of Finance for loans outstanding together with the acquisition in an amount equivalent to the balance, of a special issue of Government of Canada non-negotiable bonds redeemable at par subject to 30 days prior notice. The purpose of the takeover had been explained to the House of Commons by the Minister of Finance as being to remove from the bond market the Fund's holdings of Government securities which, because of their size and the volume of sales and purchases therein, were exerting an unstabilizing influence on the market. We also drew attention last year to the fact that the transfer of the securities at book value had relieved the Fund of a loss on their disposal which could have amounted to \$34,486,000 based on their market value at the date they were transferred.

All security transactions of the Fund in the year under review were in the special Government of Canada issue and thus no losses on sales were incurred.

182. *Yukon Territorial Government.* The Yukon Act, 1952-53, c. 53, as amended, provides for the appointment by the Governor in Council of a chief executive officer for the Territory to be known as the Commissioner and for the election of a Council composed of seven members. The Commissioner in Council is empowered by the Act to make ordinances for the government of the Territory in those fields normally within provincial jurisdiction.

The accounts relating to the receipt and expenditure of territorial funds and of money appropriated by Parliament for the Territory are subject to examination by the Auditor General of Canada, in accordance with section 26 of the Act. There is no requirement, however, for the preparation of annual financial statements, nor for their certification by the Auditor General as the statutory auditor. The Department of Northern Affairs and National Resources has advised that it proposes to recommend amending legislation to this effect. Pending the enactment of such legislation, the Commissioner has submitted, for audit examination, the annual financial statements prepared by the Territory for publication in its Public Accounts, and I have agreed to furnish audit certificates with respect to such statements.

The following is a summary of expenditure and revenue of the Yukon Territorial Government for the year ended March 31, 1963, with comparable amounts for the preceding fiscal year:

	Year ended March 31	
	1963	1962
Expenditure—		
Capital projects	\$ 3,817,000	\$ 1,748,000
Education	1,153,000	951,000
Roads, bridges and public works	961,000	894,000
Yukon Hospital Insurance Service	744,000	813,000
Health and welfare	480,000	404,000
Justice	330,000	—
Municipal and area development	277,000	285,000
Other expenditure	637,000	530,000
	<u>8,399,000</u>	<u>5,625,000</u>
Revenue—		
Federal grants	1,335,000	498,000
Liquor profits	922,000	875,000
Tax revenue	703,000	551,000
Licence revenue	259,000	221,000
Other revenue	197,000	170,000
	<u>3,416,000</u>	<u>2,315,000</u>
Expenditure recoveries:		
Capital projects	\$ 1,730,000	1,214,000
Roads, bridges and public works	564,000	575,000
Yukon Hospital Insurance Service	471,000	421,000
Education	450,000	321,000
Health and welfare	160,000	140,000
Other recoveries	97,000	71,000
	<u>3,472,000</u>	<u>2,742,000</u>
	<u>6,888,000</u>	<u>5,057,000</u>
Excess of expenditure over revenue	<u>\$ 1,511,000</u>	<u>\$ 568,000</u>

The revised agreement between the Territory and the Federal Government covering financial relations and the allocation of functions between the two governments for the five year period commencing April 1, 1962, which was based on the recommendations of the Interdepartmental Committee on Federal-Territorial Financial Relations, includes a provision that the Territory contribute towards the cost of policing and administration of justice. Justice expenditure of \$330,000, for which there was no counterpart in the prior year, resulted from this recommendation.

Loans payable to the Federal Government at the close of the fiscal year totalled \$5,431,000, an increase of \$3,296,000 from the previous year's total of \$2,135,000. Funds in the amount of \$2,833,000, borrowed by the Territory to meet cash requirements for capital expenditure as provided in the revised agreement referred to above, formed the major part of this increase.

* * * *

I would like to record my appreciation to all members of the staff of the Audit Office for their loyalty and devotion to duty during the past year.

A. M. HENDERSON,
Auditor General of Canada.

November 25, 1963.

APPENDICES

- Non-Productive Payments noted in the Audit for the Year ended March 31, 1963 Appendix 1
- Summary of Expenditure by Standard Objects for the Year ended March 31, 1963,
with comparable figures for the Preceding Fiscal Year Appendix 2
- Summary of Employees authorized for the Public Service, by Departments, Crown
Corporations and Other Instrumentalities—March 1963 in comparison with
March 1962 Appendix 3

**NON-PRODUCTIVE PAYMENTS NOTED IN THE AUDIT
FOR THE YEAR ENDED MARCH 31, 1963**

(See paragraph 98)

1. ABANDONMENT OF SHARED-COST SCHOOL CONSTRUCTION PROJECT, SOUTHAMPTON, ONT. In 1957 the Indian Affairs Branch of the Department of Citizenship and Immigration, with the concurrence of the Indian parents concerned, approached the Southampton School District to provide joint school facilities to include the Indian population, and subsequently the Department received authorization to make a capital contribution towards the cost of a new school building. After the plans were drawn, the Indian parents changed their minds and the project was abandoned, with fees totalling \$3,811 being paid by the Department to architects.

In 1961 negotiations were reopened with the school district, following a survey of the Indian population that indicated considerable support for an integrated school. The Department was again authorized to enter into an agreement and to make a capital contribution towards the cost of the new school building. The agreement was signed and a tender call was issued by the school district in June 1962. Early in July, however, acceptance of the tenders was delayed at the request of the Department because of the organized opposition of a group of Indians, and subsequently the project was again abandoned. In February 1963 the Department paid \$7,886 to the Southampton School District in reimbursement of architects' fees and costs of the tender call incurred for the proposed school building.

2. CONSTRUCTION OF AMMUNITION LIGHTERS. In September 1953 a shipbuilding concern was awarded a firm price contract by the Department of Defence Production, for the construction of two ammunition lighters for the Navy. At the time tenders were called the estimated period of construction was to be nine months. However, the actual time required was 37 months due largely to delays beyond the control of the contractor inasmuch as specifications were inadequate, the design was not firm and components to be incorporated into the vessels were not delivered on time. In the year under review, the shipbuilding firm was paid \$68,925 in settlement of its claim for additional costs attributable to the delays.

An almost identical situation arose in connection with a contract for the construction of another ammunition lighter, awarded by the Department to another shipbuilding firm also in September 1953. In this case the actual period of construction was 42 months, the prolongation of the contract being in large measure attributable to delays in the approval of drawings and in the delivery of machinery and equipment and associated drawings under a contract placed independently by the Department. The shipbuilding firm claimed for additional costs occasioned by the delays and, during the year under review, was paid \$12,817 in settlement of its claim.

We are informed by the Department that the circumstances giving rise to these payments in 1962-63 occurred in 1953 when the Department was struggling to achieve sufficient organizational strength to compete with the tremendous procurement demands being made upon it by the tide of events flowing from the Korean War.

3. PREPARATORY WORK FOR CORRECTIONAL WORK CAMP, BELAIR FOREST RESERVE, MAN. After informal discussions between penitentiary and provincial officials a site was chosen in

this Forest Reserve, for a minimum security correctional work camp. A formal approach to the provincial government for approval of the site was delayed until a suitable water supply could be located. Meanwhile considerable preparatory work was carried out, including the acquisition of equipment and building material and surveys of the property. The provincial government rejected the initial request for approval of the site but subsequently agreed to the location with the stipulation that the camp be not constructed on a permanent basis and be removed within three months, on request. This was not satisfactory to penitentiary officials and work was discontinued. Although material and equipment that had been acquired for construction may be used at an alternate location, \$10,000 spent on the development of a water supply was non-productive.

4. **COST OF LAND ACQUIRED, AND PRELIMINARY WORK UNDERTAKEN AT UNSUITABLE LOCATIONS.** As part of a program of expansion of penitentiary facilities, decisions were made to construct a maximum security penitentiary at St. Pie, Quebec and a medium security institution in the Markdale-Dundalk area of Ontario. Expenditure to the close of the fiscal year on the first institution totalled \$90,000 of which \$83,000 was for land and \$7,000 for survey, legal and engineering investigation costs. Expenditure of \$7,000 at the Markdale-Dundalk site was for survey and engineering costs only. After the close of the year work at the two sites was discontinued as it was decided that both were unsuitable as locations for the planned institutions.
5. **COST OF MANAGEMENT CONSULTANTS' SURVEY CANCELLED BEFORE COMPLETION.** In December, 1961 the Unemployment Insurance Commission entered into an agreement with a firm of management consultants to: (i) produce time standards for work measurement and develop programs for determining staff requirements for non-measurable activities and measuring performance efficiency, (ii) advise on the role and size of the Standards and Methods Division and on a suitable organizational framework within which to carry out its role, and (iii) provide a training program for the staff of that division. The work was to be carried out at a cost, not including travelling expenses incurred outside Ottawa, of \$43,500, including \$9,000 for the training program. Before the work was completed the training program was cancelled, and the firm claimed and was paid \$2,360 to cover preliminary work carried out on the program prior to being notified of its cancellation.
6. **EXTRA COSTS DUE TO DEFAULT OF ORIGINAL CONTRACTOR ON CONSTRUCTION CONTRACT, FUNDY NATIONAL PARK, N.B.** After the original contractor had defaulted on a contract let by the Department of Northern Affairs and National Resources, for the construction of a pump-house and valve-house at Fundy National Park in 1959, a contract was entered into with the second lowest bidder, at an added cost of \$13,234, including an increase of \$2,950 to compensate for winter work and price increases. The security deposit of \$5,391 of the original contractor was forfeited to the Crown. In 1959 this contractor was paid \$1,333, the difference between the value of \$4,283 placed on material which had been delivered to the site and the amount of \$2,950 by which the second low bid had been increased as mentioned above. Early in 1963 he sought additional compensation, claiming that his inability to perform the contract had been due in part to misunderstandings with departmental officers. Although the Department continued to hold the view that the basic reason for the contractor's default was his inability to construct a well as specified, he was paid an additional amount of \$6,616, based on a return of his forfeited security deposit, with interest, and the value of material, not previously considered, which had been left on the site.

7. REIMBURSEMENT OF CONTRACTOR'S PRELIMINARY EXPENSES WHEN ROAD CONTRACT CANCELLED, YELLOWKNIFE, N.W.T. In 1961 the Department of Public Works entered into a contract for improvements to the road between Yellowknife and the local airport. Before the start of construction, the Department of Northern Affairs and National Resources, which was financially responsible for the work, decided that a new route should be followed and that no work should be done on the existing road. The contract was cancelled and the contractor was paid \$4,372 during the year as compensation for his preparatory expenses.
8. CONSTRUCTION OF JETTY SERVICES, SEAWARD DEFENCE BASE, HALIFAX. A contract for steam, water, air, electrical and telephone lines at the Royal Canadian Navy Seaward Base was awarded in May 1959 by Defence Construction (1951) Limited in the amount of \$120,200. After commencement of the work and when progress was gaining momentum, the Navy advised that major changes must be made to the design. The time lost while new drawings were prepared and while materials and equipment called for by the modified design were being procured forced the contractor into winter operations and, as a result, the contractor claimed for additional costs of \$21,522. The Crown accepted responsibility for five months delay and made settlement in the amount of \$12,985 in May 1962.
9. ROADWORK AND LANDSCAPING, CAMP PETAWAWA, ONT. In April 1956 a contract in the amount of \$1,572,112 was awarded by Defence Construction (1951) Limited for roadwork, landscaping, sewers and watermains at Camp Petawawa. This work was being carried out during a period of major activity in the Canadian Army Home Station Development Program and at the time there were 19 separate contracts in progress on the site. The projects were scheduled in such a way that there would be a minimum of interference and interruption in the work being carried out by the individual contractors. However, delays in the delivery of steel and other building materials, a shortage of electrical power, delays by the Crown in removing temporary Army buildings together with changes in the design and specifications caused the overall project to fall behind schedule. The contractor for the roadwork, landscaping, sewers and watermains was thus prevented from proceeding with the construction schedule as tendered and additional costs for rented equipment, standby time and repairs to damaged landscaping were incurred.

The contractor claimed for the additional costs occasioned by the above-mentioned delays and was paid \$36,604 in December 1962.

10. EXTENSION OF WATER AND SEWERAGE FACILITIES, GREENWOOD, N.S. In April 1960 Defence Construction (1951) Limited awarded a contract in the amount of \$225,340 for the extension of water and sewerage facilities to serve 300 Permanent Married Quarters being constructed under another contract at R.C.A.F. Station, Greenwood.

The construction schedule called for work to commence by May 10, 1960 and for completion of the project by August 30, 1960, but actual completion was not until December 1960. Because the building contractor, in spite of careful planning, was unable to complete the houses on schedule, the sewerage work was delayed 30 working days. In addition, due to a delay in the availability of electrical power, the contractor was obliged to rent portable generators and pumping equipment in order to provide temporary water supply and sewerage facilities. As a result of these delays, the contractor claimed for the idle time of his equipment and the rental of additional equipment and overhead, and was paid \$16,315 in the year under review.

11. CONSTRUCTION OF FOUNDATIONS AND INSTALLATION OF SERVICES, ST. SYLVESTRE, QUE. In October 1961 Defence Construction (1951) Limited awarded a contract in the amount of \$127,136 for the construction of foundations and installation of services for 25 mobile homes at R.C.A.F. Station, St. Sylvestre. During the progress of the work, sub-surface water conditions, underground springs and substantial rock excavation not originally anticipated impeded the progress of the contract. This, combined with the time required to process necessary engineering and design changes, made it impossible for the contractor to meet the target completion date of December 15, 1961. Consideration was given to deferring the work until the spring of 1962. However, this was rejected due to the pre-arranged program for manufacture, delivery and erection of the mobile homes under another contract.

Thus the contractor was forced into a winter construction program at substantially increased costs. When the ground thawed in the spring it was discovered that the waterline pipe was broken in many places. A firm of consulting engineers employed to carry out an investigation to determine the cause of the failure reported that movement of the saturated and unstable foundation materials under freezing winter conditions had subjected the pipe to loads in excess of its structural strength. As a result of further engineering studies by engineers of Defence Construction (1951) Limited and the Department of National Defence a number of design changes were made which took into consideration the sub-surface conditions encountered. The remedial work thus occasioned involved the reopening of the entire system and this was carried out in the summer of 1962.

The foregoing delays resulted in an unproductive period of approximately five months. The costs incurred during this period, and for the remedial work, were established at \$130,569 by Defence Construction (1951) Limited and agreed to by the Department and, as the Crown had accepted responsibility for half of such costs, the contractor was paid \$65,284.

12. CONSTRUCTION OF ROADS, ETC., AND WATER AND STEAM DISTRIBUTION SERVICES, SUMMERSIDE, P.E.I. In October 1958 a contract was awarded by Defence Construction (1951) Limited in an amount of \$1,512,749 for the construction of roads, drainage, grounds development, concrete aprons and taxiways, and water and steam distribution services at the R.C.A.F. Station, Summerside.

After the commencement of work under the contract, delays were occasioned by changes in the plans for the work. The most serious delay arose in August 1959 when a change in profile of hangar aprons and taxiways resulted in additional quantities of sub-base material being required, and additional funds to provide for this were not made available in time to take advantage of the fall construction season. Although the contractor continued with the work on a reduced scale until September 1959 he was then obliged to suspend operations.

In the schedule for the over-all project it was anticipated that a substantial amount of asphalt would be laid in the fall of 1959 and the contractor had been instructed to move his asphalt plant to the site. However, because of the delay mentioned, only a limited amount of asphalt work could be completed. The contractor claimed for additional costs for rental of equipment, overhead, and supervision and was paid \$76,213 in October 1962.

13. ADDITIONAL COSTS DUE TO DECISION TO CHANGE SITE OF BUILDING, OTTAWA. In 1955 an architect was retained by the Department of Public Works to prepare plans and specifications for, and to supervise the construction of, a building for the National Research Council at Ottawa. After he had prepared preliminary plans, sketches, etc., a change

in site was decided upon by the Council, as a result of which the shape and style of the proposed building had to be substantially revised to fit in with other buildings planned for or being constructed in the same area. In 1960 the architect was paid \$21,835, provisionally, on a quantum meruit basis, in accordance with the terms of his contract, for services rendered prior to the decision to re-site the work. During the year under review he was paid an additional \$4,861 in connection with the abandoned work when he was able to substantiate a part of his claim which had been disallowed when the earlier payment was made.

14. **COST OF ADDITIONAL WORK TO REMEDY CONSTRUCTION DEFICIENCIES, CAMPBELLTON, N.B.** In September 1959 a contract was awarded by the Department of Public Works for the construction of a public building at Campbellton. During construction settlement of such magnitude occurred that complete underpinning of the structure, including the driving of piles, was found necessary. The contractor maintained that the Department of Public Works should accept all responsibility for the settlement problem because the design did not make proper allowance for the poor soil encountered. Although this was disputed by the Department, its representatives on the site had not objected to the way in which the work had been carried out and a payment of \$46,055 was made to the contractor, being 50% of the \$92,110 cost of the additional work required.
15. **ADDITIONAL COSTS RESULTING FROM CONSTRUCTION DELAYS, WINDSOR, ONT.** In 1958 the Department of Public Works entered into a contract for the alteration and construction of an addition to the Federal Building at Windsor. After excavation work was under way, it became apparent that the soil loading was going to be much more critical than had been indicated by the borings taken on the site prior to the award of the contract. Extensive foundation design changes were found to be necessary, resulting in the work being delayed for more than four months. Further delays, due primarily to alterations in layout requested by two departments and changes in connection with the fire protection system, lighting fixtures and the design of the main lobby, accounted for an additional delay of over four months. The contractor was paid \$56,443 during 1962-63 to compensate him for costs incurred as a result of these delays.
16. **ADDITIONAL COSTS DUE TO CONSTRUCTION DELAY, HALIFAX.** In 1961 the Department of Public Works entered into a contract for the construction of an Inspection Laboratory for the Department of Fisheries at Halifax. After the specified pile driving was about 60% complete, an old timber wharf was encountered. When the timbers were removed, a test pile was driven and the unsatisfactory result led to a re-design of the pile foundation and a delay of nearly two months. During the year a payment of \$8,451 (of which all but \$272 was non-productive in nature) was made to the contractor to compensate him for costs incurred as a result of the delay.
17. **COST OF MAINTAINING UNUSED OFFICE SPACE, LONDON, ENGLAND.** Item 15 of paragraph 115 of last year's Report referred to rental and maintenance costs which had been incurred in the last half of the fiscal year 1961-62 on a vacated leasehold property in London, England. During the year under review the Department of Public Works continued to be unable to dispose of the residue of the leasehold interest in the property on satisfactory terms, and rental and other expenses in excess of \$27,000 were incurred in respect of the unused premises. The interest has been disposed of since March 31, 1963.
18. **EXCAVATION COSTS AT SITE ABANDONED, PORT HARDY, B.C.** In 1960 the Department of Public Works entered into a contract for the construction of detachment quarters for the Royal Canadian Mounted Police at Port Hardy. Shortly after construction began the

contractor encountered higher sub-soil rock, a higher water table and lower grades than had been shown by the site survey and report. As a result, work was stopped pending a re-design of foundations. Because it now considered the site unsuitable, the Force decided to relocate the detachment unit at the Port Hardy airport. The contractor was paid \$8,787 in respect of the non-productive costs incurred at the original site.

19. COST OF DELAY IN CONSTRUCTION OF SHOPS BUILDING, SAINT JOHN, N.B. In May 1960 the Department of Public Works entered into a contract for the construction of a shops building for the Department of Transport at Saint John. The contractor moved on to the site and began preparation for the construction of the building, but when application was made to the municipality for a building permit it was refused because the siting of the building did not conform to a set-back by-law. As the Department of Transport did not wish to re-site the building, approximately a month was required for negotiations which led to the waiving of the by-law requirement. Work was suspended during this period and, in the year under review, the contractor was paid \$2,450 for costs incurred by him as a result of the delay.
20. COST OF DELAY IN CONSTRUCTION OF BUILDING, WINNIPEG. In 1960 the Department of Public Works entered into a contract for the construction of an addition to the Science Service Laboratory of the Department of Agriculture at Winnipeg. Although test borings had been carried out at the site of the addition, work under the contract revealed unexpected sub-soil conditions and a delay was necessary while a revised design, compatible with the actual conditions encountered, was prepared. The contractor's progress was also delayed because of indecision (after excavation had been started at one site) as to where an associated building should be located. In January 1963 the contractor was paid \$9,149 to compensate him for additional expenses incurred on the basis of a total delay of three months.
21. COST DUE TO CHANGE IN SITING OF BREAKWATER EXTENSION, FREEPORT, N.S. On June 5, 1962 the Department of Public Works awarded a contract at an estimated cost of \$128,750 for a breakwater extension, to be built of quarried rock, at Freeport. Two weeks later, after the contractor had moved his equipment to Freeport and opened up a quarry, local fishermen raised objections to the proposed site, although they had earlier supported the plan. They now wished the protection to be a separate structure rather than an extension, and to be located 300 feet west of the existing breakwater. The contractor was instructed to suspend operations, and a few days later the project was terminated. In February 1963 a payment of \$55,741 was made in settlement of the contractor's claim for costs in connection with the terminated work.
22. ADDITIONAL COSTS DUE TO DELAY IN DECISION REGARDING RELOCATION OF POWER LINES, OTTAWA. In November 1959 a contract was entered into by the Department of Public Works for the construction of storm sewers, grading, roads, parking areas, etc., on the Riverside Drive development at Ottawa. After the job was completed the contractor submitted a claim for additional reimbursement because of delays to which the work had been subjected pending relocation of power lines. The Treasury Board had originally approved of expenditure for relocating the power lines overhead, but it was not until July 1960, after extended negotiations involving the City of Ottawa, the National Capital Commission and a public utility, that approval was given to place them underground.
In the year under review a payment of \$70,775 was made to the contractor to compensate him for costs incurred due to the delay in reaching the decision to relocate power lines underground.

23. COST OF UNUSED PLANS FOR BUILDING IMPROVEMENT, OTTAWA. During the summer months, steam requirements for Parliament Hill in Ottawa are met from the boiler room in the East Block. It having become apparent that the existing facilities of the boiler room were inadequate, consultants were commissioned in 1961 to design improvements. Although in due course they produced plans and specifications, these would have involved expenditure estimated at \$165,000, and the work was carried out to a simpler design, prepared by the Department of Public Works, at a cost of \$46,000. During the year under review the consultants agreed to accept a settlement of \$1,672 on the basis of the actual cost incurred.
24. COST OF CHANGING FROM BRICK TO STONE, THE FACING OF A BUILDING, HAMILTON. In 1961 the Department of Public Works entered into a contract for the construction of an addition and alterations to a postal terminal at Hamilton. Although the existing building was faced with stone, the plans for the addition called for a red brick facing. After the brick had been laid, local civic officials and others objected strongly to the appearance of the elevation of the addition, which faced a principal street, and requested that it be faced with stone to match the original building. This was done in 1962, with Treasury Board approval, a cost of \$2,837 being incurred in supplying, installing and removing the brick, which had no salvage value.
25. COST OF PARTIAL CONSTRUCTION OF BREAKWATERS ABANDONED DUE TO SHORTAGE OF SUITABLE ROCK, ST. BRIDE'S, Nfld. A contract for repairs and improvements to two breakwaters at St. Bride's was entered into by the Department of Public Works in 1961. A phase of the work was the placing of quarry run rock fill and armour stone on the seaward faces of both breakwaters. By mid-1962, when the contractor had placed 4,654 tons of rock in position, of an estimated total requirement of 35,000 tons, he stopped work, claiming that all possible sources of rock in the vicinity of the work had been exhausted and he did not see how he could complete the project. The value of the work performed up to that point, at the contract unit rates, was \$73,034. After an investigation by departmental officials had established the unlikelihood of suitable rock being available within a reasonable distance of the site, the contract was terminated at a total cost of \$127,041, so that a non-productive payment of about \$54,000 resulted.
- In May 1963 the National Research Council was provided with funds to carry out a study of the situation at St. Bride's and to recommend the most suitable type of construction in order to complete the work contemplated in the terminated contract.
26. COST OF CONSTRUCTION DELAYS DUE TO FAULTY DRAWINGS, OTTAWA. During the construction of additions and alterations to the Dominion Bureau of Statistics building, it became apparent that the as-built drawings for the existing building were inaccurate. As the work had been designed to correlate with the existing structure as detailed in these drawings, the re-design of all connection details was required and completion of the contract was delayed. During the year under review the contractor was paid \$4,780 for costs resulting from delays caused to a considerable extent by the faulty drawings.
27. PRELIMINARY COSTS OF PROPOSED WHARF NOT PROCEEDED WITH, GLACE BAY, N.S. In 1961 the Department of Public Works entered into a contract for the construction of a wharf for the benefit of the fishing industry at Glace Bay. The site of the proposed structure had been acquired by the Department in 1934 and in the interim a number of fishermen had been permitted to use the property, where they had provided themselves with shacks and small private wharves. Subsequent to the award of the contract, strenuous exception to the choice of the site was taken by a group of local inshore fishermen because

several of them would thereby be deprived of the use of their existing wharves and sheds. After material was delivered to the site and the contractor attempted to commence work it became apparent that he would be unable to carry out the project unless provided with police protection. Municipal officers declined to arrange for this unless an incident occurred which would justify intervention. Although the Department offered to alter its plan by moving the approach to the wharf so that it would be unnecessary to remove the fishermen's sheds, and to have dredging carried out to provide mooring space for the inshore fishermen, the latter remained adamant that a wharf should not be built on the site.

Early in 1962 the Department informed the contractor of its decision to cancel the contract and in due course he was paid \$37,596 for expenses incurred in the abortive attempt to proceed with the project. As the Department has found it possible to utilize material valued at about \$14,500 taken over from the contractor, the financial consequence of the incident was a non-productive cost of approximately \$23,000.

28. PRELIMINARY COSTS INCURRED ON WHARF NOT PROCEEDED WITH, SEPT ÎLES, QUE. In 1961 the Department of Public Works engaged a firm of consulting engineers to prepare plans and specifications for the first stage of a new wharf at Sept Îles. In March 1962 the Department sought Treasury Board approval for expenditure already incurred under departmental authority and in addition, for what would be involved in the preparation of the necessary designs, etc., for the second and final stage of the proposed work. The Department was informed that the Board regarded it as premature to proceed with the preparation of detailed plans when there remained considerable uncertainty as to whether a new public wharf at Sept Îles would be required in the near future. Further, the Board felt that should changing traffic conditions demonstrate the need for a wharf at some future date, existing plans might prove to be outdated and unsuitable. Accordingly, the engagement of the consultants was terminated and during the year under review they were paid \$13,743 for services already rendered.
29. ADDITIONAL COSTS DUE TO CONSTRUCTION DELAY, INUVIK, N.W.T. In 1958 the Department of Public Works entered into a contract for the construction of various buildings, including a substantial number of housing units, at Inuvik. The contractor had planned to bring work on the housing units in 1958 to a point which would enable him to complete this phase of the project in 1959. Because the cut-off elevations for piling could not be given until the elevations for the utilidor system serving the area had been determined, he was unable to proceed until the late autumn of 1958. The end result of the delay was an additional three months of winter work in 1959-60. In November 1962 the contractor was paid \$53,887 to compensate him for costs incurred because of the delay.
30. CONSULTANTS' FEES IN RESPECT OF ABANDONED WORK, SAULT STE. MARIE, ONT. In 1960 the Treasury Board granted approval in principle to the construction of an air terminal building by the Department of Transport at the Sault Ste. Marie Airport, at the same time stipulating that the estimated total cost of \$610,000 was not to be exceeded. Consultants retained by the Department prepared sketch plans, working drawings and specifications prior to tenders being invited for the construction work. When the lowest tender received and a revised tender based on modified plans were both in excess of the prescribed ceiling, the Department was instructed by the Treasury Board to cancel the tender call and re-design the building at a lower cost. During the 1962-63 fiscal year a final payment of \$12,310 to the consultants in respect of the abandoned work brought the total non-productive cost for consultants' services and expenses to \$26,608.

31. CONSULTING SERVICES, AIR TERMINAL BUILDING, WINNIPEG. In 1957 the Department of Transport engaged a firm of consultants to provide architectural and consulting engineering services in connection with the construction of an Air Terminal Building at the Winnipeg Airport. On departmental instructions, sketch plans were completed based on a design which incorporated 12 gate positions and was estimated to cost in excess of \$15.5 million. In due course tenders were called for foundation work and site preparation. When the Treasury Board was informed of the results of the tender call, the Department was requested to review the whole project with a view to reducing the over-all cost. The result was that a new concept for the proposed building was agreed to and the consultants were requested to produce a design reducing the size of the building to accommodate 8 gate positions only, at a substantial reduction in cost.

In 1960 the consultants were paid \$82,556 for services in connection with the original concept of the building. Primarily this amount represented the difference between 1% of the estimated amount involved in the original concept and 1% of the estimated cost of the revised concept. In March 1963 the Treasury Board authorized a further payment of \$34,386, on the quantum meruit basis, in full settlement of the consultants' claim for additional compensation, bringing the non-productive outlay to \$116,942.

32. COST OF DELAYS IN CONSTRUCTION OF AIRPORT FACILITIES, MONTREAL. In 1959 the Department of Transport entered into a contract for the excavation, foundation waterproofing and plumbing works for fingers, tunnels and aeroquay for the terminal building at the Montreal International Airport. In May 1961 the contractor requested compensation for costs claimed to have been incurred by him as a result of delays caused by changes ordered by the Department in the plans and specifications after the work was under way. Following detailed consideration of the contractor's claim by the Department, in August 1962 he was paid an additional amount of \$44,546 in settlement of his much larger claim.
33. COST OF LANDLINE CIRCUIT NOT PUT INTO USE, VAL D'OR, QUE. In 1959 the Direct Controller to Pilot Communications (D.C.P.C.) program of the Department of Transport included plans for a landline circuit between Rouyn and Val d'Or, which would permit direct communication between aircraft and the traffic control tower at Val d'Or through the medium of facilities located at Rouyn. A telecommunication company was requested to arrange for provision of the landline in 1960. In April 1962, when the circuit had not been commissioned because a building had not been constructed at Rouyn to house the departmental equipment, the company was informed that the landline was no longer required because the airport at Val d'Or was being taken over by the R.C.A.F. During the year the company was paid \$2,698 to cover its out-of-pocket expenses in connection with the provision of a circuit which was never used.
34. PRELIMINARY EXPENSES INCURRED ON PROPOSED RAILWAY CROSSING BRIDGE, COBOURG, ONT. In 1957 the Board of Transport Commissioners authorized the Town of Cobourg to construct an overhead bridge to replace existing level crossings across the rights of way of two railways within the town limits. A firm of consulting engineers was engaged by the Town to plan the structure but by 1961, before construction of a bridge had been carried out, the Board agreed with the municipality's view that changed conditions at the location made a bridge unnecessary. During the year under review the Railway Grade Crossing Fund was charged with \$19,287, representing a payment to the municipality of sixty percent of the account rendered to it by the consultants for their services and expenses in connection with the cancelled work.

35. **NEW WHARF AND SHED FACILITIES, CORNER BROOK, Nfld.** In paragraph 115 (item 14) of last year's Report reference was made to an unusual non-productive payment of \$66,750 in connection with the site for new wharf and shed facilities at Corner Brook. During the year under review an additional non-productive payment was made in connection with the same project. In September 1961 the Canadian National Railways, for whom the facilities were being provided, informed the Department of Public Works that the plans for an ancillary services structure were incompatible with an efficient shed operation, but work on the shed had commenced before a decision had been reached as to the necessity for the suggested plan changes. Late in December 1961 the contractor was instructed to cease work on this phase of his operation until plans had been revised and nearly three months elapsed before he was instructed to resume work. In February 1963 he was paid \$20,050, from funds provided by the Department of Transport, as reimbursement of the cost of maintaining a work force on the site during the idle period.
36. **ADDITIONAL COSTS DUE TO CONSTRUCTION DELAY, EDMONTON.** In 1960 the Department of Transport entered into a contract for the construction of a terminal services building, including the installation of equipment, for the Edmonton International Airport, to be completed by October 31st of that year. The specifications available to bidders stated that "separate tenders have been called for the hot water generators and the successful general contractor will later be asked to absorb and include these hot water generators in his contract". The placing of a contract for the equipment was delayed because of the time involved in assessing the proposal of the low bidder and delivery was not required until January 31, 1961. Further delays were caused by difficulties which arose between the equipment contractor and his suppliers, so that final deliveries were not made until the following June. The completion of the construction contract was thus delayed until July 1961.
- During the year under review the contractor was paid \$18,619 in compensation for increased labour costs, winter work conditions and extended overhead costs during the period of several months when he was unable to proceed with the work as planned.
37. **ARCHITECTS' PLANS NOT USED, VANCOUVER.** In 1958 a firm of architects was engaged by the Department of Public Works to prepare plans and specifications for, and to supervise construction of, a therapeutic pool, an exercise room and an extension of the outpatient department for the Department of Veterans Affairs at the Shaughnessy Hospital, Vancouver. While working drawings were being prepared, the Department of Veterans Affairs was making further investigations concerning the latest developments in the design of therapeutic pools. The result was that the architects were requested to make changes in their plans and two sets of largely-completed drawings were abandoned. In August 1962 they were paid \$6,700 on a quantum meruit basis for services rendered in preparing the abandoned plans.

**SUMMARY OF EXPENDITURE BY STANDARD OBJECTS
FOR THE YEAR ENDED MARCH 31, 1963**

(with comparable figures for the preceding fiscal year)

(in millions of dollars)

	1962-63	1961-62	Increase or decrease (-)
Civil salaries and wages.....	\$ 864.4	\$ 830.0	\$ 34.4
Civilian allowances.....	16.1	14.8	1.3
Pay and allowances, defence forces and R.C.M. Police.....	583.9	574.5	9.4
Professional and special services.....	91.1	95.2	-4.1
Travelling and removal expenses.....	63.3	66.9	-3.6
Freight, express and cartage.....	11.1	12.2	-1.1
Postage.....	6.3	6.2	.1
Telephone, telegrams and other communication services.....	29.3	21.7	7.6
Publication of departmental reports and other material.....	9.0	9.4	-.4
Exhibits, advertising, films, broadcasting and displays.....	13.2	13.2	.0
Office stationery, supplies, equipment and furnishings.....	23.1	26.1	-3.0
Materials and supplies.....	180.2	171.6	8.6
Buildings and works, including land—			
Construction or acquisition.....	289.3	328.1	-38.8
Repairs and upkeep.....	52.2	60.2	-8.0
Rentals.....	17.2	16.3	.9
Equipment—			
Construction or acquisition.....	285.6	357.2	-71.6
Repairs and upkeep.....	143.9	148.9	-5.0
Rentals.....	6.6	6.9	-.3
Municipal or public utility services.....	64.3	57.5	6.8
Contributions, grants, subsidies, etc., not included elsewhere.....	814.9	637.2	177.7
Pensions, superannuation and other benefits.....	142.6	134.8	7.8
All other expenditures (other than special categories).....	154.2	88.5	65.7
Interest on public debt, etc.....	917.8	839.0	78.8
Subsidies and special payments to the provinces.....	275.3	541.2	-265.9
Family allowance payments.....	531.6	520.8	10.8
Old age assistance, blind persons and disabled persons allowances and unemployment assistance.....	159.2	143.4	15.8
Veterans' disability pensions, etc.....	176.0	177.9	-1.9
Other payments to veterans and dependents.....	93.1	87.3	5.8
Government's contribution to the Unemployment Insurance Fund.....	57.3	55.6	1.7
Hospital insurance and general health grants.....	387.0	332.9	54.1
Trans-Canada Highway contributions.....	29.2	36.5	-7.3
Movement of mail by land, air and water.....	63.3	62.1	1.2
Deficits—Government-owned enterprises.....	64.2	84.1	-19.9
Less: Expenditure recovered.....	\$6,615.8	\$6,558.2	\$ 57.6
	45.5	37.6	7.9
Net Total Expenditure.....	\$6,570.3	\$6,520.6	\$ 49.7

APPENDIX 3

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE
BY DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES

March 1963 in comparison with March 1962

	Employees Authorized		Increase (Decrease)
	March 1963	March 1962	
DEPARTMENTS (Notes 1 and 2)—			
Agriculture—			
Administration.....	432	399	33
Research.....	3,881	3,846	35
Production and marketing.....	3,588	3,547	41
Board of Grain Commissioners.....	939	940	(1)
Special.....	1,290	1,277	13
Canadian Government Elevators.....	241	231	10
	10,371	10,240	131
Atomic Energy Control Board.....	15	8	7
Auditor General's Office.....	179	159	20
Board of Broadcast Governors.....	40	35	5
Chief Electoral Officer.....	16	16	—
Citizenship and Immigration—			
Administration.....	200	191	9
Citizenship.....	217	217	—
Immigration.....	2,147	2,127	20
Indian Affairs.....	2,645	2,523	122
	5,209	5,058	151
Civil Service Commission.....	775	736	39
Defence Production.....	1,647	1,587	60
External Affairs—			
Administration.....	843	820	23
Representation abroad.....	1,459	1,380	79
International Joint Commission.....	12	12	—
Other international commissions.....	23	15	8
External Aid Office.....	104	103	1
	2,441	2,330	111
Finance—			
Departmental administration.....	281	263	18
Comptroller of the Treasury.....	4,960	4,898	62
Administration of various Acts.....	250	251	(1)
Tariff Board.....	34	32	2
Royal Canadian Mint.....	207	203	4
	5,732	5,647	85
Fisheries—			
Administration and general services.....	225	210	15
Field services.....	1,628	1,575	53
Special.....	798	748	50
	2,651	2,533	118
Forestry—			
Departmental administration.....	182	178	4
Forest research branch.....	360	345	15
Forest entomology and pathology branch.....	547	499	48
Forest products research branch.....	185	177	8
	1,274	1,199	75

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—*Continued*

	Employees Authorized		Increase (Decrease)
	March 1963	March 1962	
DEPARTMENTS (Continued)			
Governor General and Lieutenant Governors.....	17	17	—
Insurance.....	110	108	2
Justice—			
Department.....	489	429	60
Penitentiaries.....	3,042	2,854	188
	3,531	3,283	248
Labour—			
Department.....	679	670	9
Unemployment Insurance Commission.....	10,888	10,510	378
	11,567	11,180	387
Legislation—			
Senate.....	129	123	6
House of Commons.....	615	580	35
Library of Parliament.....	60	60	—
	804	763	41
Mines and Technical Surveys—			
Administration.....	258	241	17
Surveys and Mapping Branch.....	1,711	1,569	142
Geological Survey.....	553	512	41
Mines Branch.....	678	655	23
International Boundary Commission.....	14	14	—
Dominion Coal Board.....	19	19	—
Other.....	312	273	39
	3,545	3,283	262
National Defence (Civilian Staffs)—			
Departmental administration.....	681	663	18
Inspection services.....	1,414	1,409	5
Royal Canadian Navy.....	11,681	11,702	(21)
Canadian Army.....	19,855	20,022	(167)
Royal Canadian Air Force.....	16,381	15,789	592
Defence research and development.....	2,959	2,926	33
	52,971	52,511	460
National Gallery.....	67	72	(5)
National Health and Welfare—			
Departmental administration.....	368	357	11
National Health Branch.....	3,985	3,816	169
Welfare Branch.....	885	898	(13)
General.....	188	173	15
Fitness and amateur sport.....	11	—	11
	5,437	5,244	193
National Research Council.....	3,389	3,278	111
National Revenue—			
Customs and Excise Divisions.....	8,188	8,237	(49)
Taxation Division.....	6,895	6,784	111
Tax Appeal Board.....	22	20	2
	15,105	15,041	64
Northern Affairs and National Resources—			
Departmental administration.....	205	204	1
National Parks Branch.....	159	143	16
National parks and historic sites.....	1,552	1,491	61
Water Resources Branch.....	272	244	28
Northern Administration Branch.....	762	719	43
Yukon Territory.....	60	56	4
Northwest Territories and other field services.....	539	509	30
National Museum of Canada.....	109	103	6
Canadian Government Travel Bureau.....	113	102	11
	3,771	3,571	200

AUDITOR GENERAL'S REPORT

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SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE *Continued*

	Employees Authorized		Increase (Decrease)
	March 1963	March 1962	
DEPARTMENTS (Concluded)			
Post Office—			
Departmental administration.....			
Operations.....	338	338	—
Financial services.....	27,875	27,302	573
	408	404	4
	28,621	27,844	777
Privy Council Office.....	212	197	15
Public Archives and National Library—			
Public Archives.....	145	123	19
National Library.....	57	48	9
	202	174	28
Public Printing and Stationery.....	1,925	1,964	(39)
Public Works—			
General administration.....	1,830	1,720	110
Maintenance and operation of public buildings.....	5,954	6,060	(106)
Harbours and rivers engineering service.....	557	574	(17)
Development engineering service.....	214	200	14
	8,555	8,554	1
Royal Canadian Mounted Police (Civilian Staff).....	1,427	1,201	226
Secretary of State—			
Departmental administration.....	63	60	3
Companies Division.....	25	25	—
Trade Marks Division.....	52	52	—
Bureau for Translations.....	321	322	(1)
Patent and Copyright Office.....	363	321	42
	824	780	44
Trade and Commerce—			
General administration.....	1,712	1,577	135
Dominion Bureau of Statistics.....	1,968	1,900	68
National Energy Board.....	73	57	16
1961 Decennial Census of Canada.....	325	1,001	(676)
	4,078	4,535	(457)
Transport—			
Departmental administration.....	669	634	35
Canal services.....	469	467	2
Marine services.....	3,892	3,773	119
Railway and Steamship services.....	7	7	—
Air services.....	10,438	9,588	850
Air Transport Board.....	90	79	11
Board of Transport Commissioners.....	179	173	6
Canadian Maritime Commission.....	26	24	2
	15,770	14,747	1,023
Veterans Affairs—			
Department.....	13,198	13,152	46
Canadian Pension Commission.....	379	387	(8)
Soldier Settlement and Veterans' Land Act.....	803	903	(100)
	14,380	14,442	(62)
Total, Departments.....	206,658	202,512	4,146
CROWN CORPORATIONS (Note 3)—			
Atomic Energy of Canada Limited—			
Professional.....	577	559	18
Non-professional.....	1,156	1,135	21
Hourly rate.....	1,000	1,045	(45)
	2,733	2,739	(6)

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—Continued

	Employees Authorized		Increase (Decrease)
	March 1963	March 1962	
CROWN CORPORATIONS (Continued)			
Canadian Arsenals Limited—			
Salaried.....	861	976	(115)
Hourly rate—productive.....	652	787	(135)
Hourly rate—non-productive.....	572	672	(100)
	2,085	2,435	(350)
Canadian Broadcasting Corporation.....	7,673	7,828	(155)
Canadian Commercial Corporation.....	81	69	12
Canadian National Railways.....	91,561	94,216	(2,655)
Canadian Overseas Telecommunication Corporation—			
Administrative.....	110	92	18
Operating.....	339	323	16
	449	415	34
Canadian Patents and Development Limited.....	4	4	—
Canadian World Exhibition Corporation.....	9	—	9
Central Mortgage and Housing Corporation—			
Regular.....	1,953	1,977	(24)
Contract and casual.....	67	93	(26)
	2,020	2,070	(50)
Crown Assets Disposal Corporation.....	99	99	—
Defence Construction (1951) Limited.....	297	441	(144)
Eldorado Aviation Limited.....	28	32	(4)
Eldorado Mining and Refining Limited—			
Administrative.....	85	91	(6)
Operating.....	702	849	(147)
Research.....	46	43	3
	833	983	(150)
Export Credits Insurance Corporation.....	58	43	15
Farm Credit Corporation.....	468	388	80
The National Battlefields Commission.....	22	23	(1)
National Capital Commission—			
Administrative, Engineering, etc.....	113	110	3
Prevailing rate—permanent.....	297	287	10
Construction employees for specific works.....	125	172	(47)
	535	569	(34)
National Centennial Administration.....	8	—	8
National Harbours Board—			
Salaried—Permanent, seasonal and temporary.....	869	862	7
Prevailing rate—Permanent, seasonal and temporary.....	1,458	1,485	(27)
	2,327	2,347	(20)
Northern Canada Power Commission—			
Administrative.....	37	37	—
Operating.....	145	150	(5)
	182	187	(5)
Northern Transportation Company Limited.....	37	38	(1)

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—*Concluded*

	Employees Authorized		Increase (Decrease)
	March 1963	March 1962	
CROWN CORPORATIONS (Concluded)			
Polymer Corporation Limited—			
Salaried.....	1,159	958	201
Hourly rate.....	1,887	1,735	152
	3,046	2,693	353
The St. Lawrence Seaway Authority—			
Administrative and Engineering.....	257	250	7
Operations.....	669	667	2
Maintenance.....	476	575	(99)
	1,402	1,492	(90)
The Seaway International Bridge Corporation Ltd.....	17	15	2
Trans-Canada Air Lines—			
Flying personnel.....	1,445	1,538	(93)
Other personnel.....	10,168	10,220	(52)
	11,613	11,758	(145)
Total, Crown Corporations.....	127,647	130,881	(3,234)
OTHER INSTRUMENTALITIES (Note 3)—			
Bank of Canada.....	1,064	980	84
The Canada Council.....	33	32	1
The Canadian Wheat Board.....	582	619	(37)
The Custodian.....	17	17	—
Industrial Development Bank.....	491	427	64
National Film Board.....	624	645	(21)
National Productivity Council.....	16	10	6
Total, Other Instrumentalities.....	2,827	2,730	97
TOTAL, DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES.....	337,132	336,123	1,009

NOTES:

- (1) The boards, commissions, etc., shown separately under departmental headings, are those for which descriptive outlines are included in the publication "Organization of the Government of Canada".
- (2) The numbers of employees shown for the various departments are the approved "man-year" figures appearing in the Details of the Estimates, including seasonal, part-time and casual employees.
- (3) The number of employees shown for Crown corporations and other instrumentalities are the "actual strength" figures. The following additional information is available with respect to establishments authorized by the executive boards in several cases:

	March 1963	March 1962	Increase (Decrease)
Canadian Broadcasting Corporation.....	7,892	8,109	(217)
National Capital Commission—			
Administrative, Engineering, etc.....	129	113	16
Prevailing rate—seasonal.....	514	474	40
National Centennial Administration.....	30	—	30
National Film Board.....	694	684	10

EXHIBITS

(as published in the Public Accounts)

Statement of Expenditure and Revenue for the Fiscal Year ended March 31, 1963 ...	Exhibit 1
Statement of Assets and Liabilities as at March 31, 1963	Exhibit 2
Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the Fiscal Year ended March 31, 1963	Exhibit 3
Summary of Revenue by Main Classifications and Departments for the Fiscal Year ended March 31, 1963	Exhibit 4

THE GOVERNMENT

STATEMENT OF EXPENDITURE AND REVENUE FOR

(with comparative figures for

EXPENDITURE

	Fiscal year ended	
	March 31, 1963	March 31, 1962
Agriculture.....	\$ 234,826,957	\$ 286,683,751
Atomic Energy.....	63,205,370	34,711,614
Auditor General's Office.....	1,218,834	1,069,939
Board of Broadcast Governors.....	353,913	311,515
Canadian Broadcasting Corporation.....	80,815,947	78,160,805
Office of the Chief Electoral Officer.....	11,815,352	366,474
Citizenship and Immigration.....	66,237,381	65,016,446
Civil Service Commission.....	4,792,379	4,738,709
Defence Production.....	28,837,778	23,929,926
External Affairs.....	85,196,665	95,571,260
Finance—		
Public Debt charges.....	917,787,239	838,986,401
Fiscal, tax-sharing, subsidy and other payments to provinces.....	275,302,387	541,182,624
Other expenditure.....	161,990,212	131,784,164
	1,355,079,838	1,511,953,189
Fisheries.....	23,292,700	23,097,882
Forestry.....	16,174,971	14,737,929
Governor General and Lieutenant-Governors.....	467,638	474,156
Insurance.....	1,422,120	1,358,022
Justice.....	34,531,655	32,580,184
Labour.....	348,235,508	168,884,756
Legislation.....	8,108,063	8,438,007
Mines and Technical Surveys.....	71,130,401	67,599,290
National Defence—		
Royal Canadian Navy.....	269,438,503	272,005,671
Canadian Army.....	443,163,371	442,414,649
Royal Canadian Air Force.....	713,884,440	781,421,960
Defence research and development.....	41,089,007	40,444,658
Other expenditure.....	107,278,340	89,817,374
	1,574,853,661	1,626,104,312
National Film Board.....	5,610,630	5,143,773
National Gallery.....	987,271	1,053,582
National Health and Welfare—		
Family allowances.....	531,566,349	520,781,193
Other expenditure.....	591,854,334	519,494,503
	1,123,420,683	1,040,275,696
National Research Council, including the Medical Research Council.....	40,596,727	38,849,279
National Revenue.....	78,607,667	75,330,063
Northern Affairs and National Resources.....	87,563,579	79,367,605
Post Office.....	189,344,410	185,003,359
Privy Council.....	5,016,879	4,479,601
Public Archives and National Library.....	1,035,471	977,899
Public Printing and Stationery.....	3,977,442	4,010,195
Public Works.....	171,384,711	188,813,326
Royal Canadian Mounted Police.....	65,424,359	60,497,037
Secretary of State.....	4,788,258	4,994,967
Trade and Commerce.....	30,364,666	42,447,107
Transport.....	416,019,472	410,391,113
Veterans Affairs—		
Pensions.....	175,901,737	177,869,638
Other expenditure.....	159,700,712	155,353,268
	335,602,449	333,222,906
Total expenditure.....	6,570,341,805	6,520,645,674
Budgetary deficit.....	—691,632,927	—791,021,950
	5,878,708,878	5,729,623,724

H. R. BALLS,
Comptroller of the Treasury.

R. B. BRYCE,
Deputy Minister of Finance.

EXHIBIT 1

OF CANADA

THE FISCAL YEAR ENDED MARCH 31, 1963
the preceding fiscal year)

REVENUE

	Fiscal year ended	
	March 31, 1963	March 31, 1962
Tax revenues—		
Income tax—		
Personal ⁽¹⁾	\$1,744,626,029	\$1,792,655,915
Corporation ⁽¹⁾	1,182,836,979	1,202,053,695
On dividends, interest, etc., going abroad	129,137,372	112,305,709
Excise taxes—		
Sales ⁽¹⁾	805,970,471	759,677,970
Other	260,378,073	262,526,380
Customs duties	644,992,131	534,515,544
Excise duties	381,865,989	362,798,655
Estate tax ⁽²⁾	87,143,312	84,579,383
Miscellaneous	27,028	51,495
	5,236,977,584	5,111,164,746
Non-tax revenues—		
Return on investments	311,860,829	307,502,187
Post Office—net postal revenue	192,771,815	183,678,937
Refund of previous years' expenditure	22,392,490	18,162,831
Services and service fees	46,185,576	42,452,991
Proceeds from sales	26,531,005	25,901,810
Privileges, licences and permits	25,008,212	23,271,195
Bullion and coinage	9,404,342	7,965,169
Premium, discount and exchange		1,771,425
Miscellaneous	7,577,225	7,752,433
	641,731,494	618,458,978

⁽¹⁾ Excluding tax credited to the old age security fund—

	1962-63	1961-62
Personal income tax	273,650,000	258,950,000
Corporation income tax	115,250,000	100,125,000
Sales tax	302,238,927	284,879,238

⁽²⁾ Includes duties levied under the Dominion Succession Duty Act.

Total revenue	5,878,708,878	5,729,623,724
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Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the expenditures and revenues of Canada for the year ended March 31, 1963.

A. M. HENDERSON,
Auditor General.

THE GOVERNMENT
STATEMENT OF ASSETS AND
(with comparative figures)

ASSETS

	March 31, 1963	March 31, 1962	Net increase or decrease (—) during 1962-63
1. Current assets—			
(a) Cash, schedule A.....	\$ 511,347,154	\$ 895,321,334	\$ —383,974,180
(b) Departmental working capital advances and revolving funds, schedule B.....	243,267,010	223,379,565	19,887,445
(c) Securities held for the securities investment account at amortized cost.....	33,480,163	94,608,163	—61,128,000
(d) Other current assets, schedule C.....	32,176,896	32,707,390	—530,494
	820,271,223	1,246,016,452	—425,745,229
2. Advances to the exchange fund account—(value of investments from advances on basis of closing exchange rates: March 31, 1963, \$2,757,046,289; March 31, 1962, \$1,759,690,147).....	2,736,000,000	1,793,000,000	943,000,000
3. Sinking fund and other investments held for retirement of un-matured debt, schedule D.....	22,311,845	19,432,331	2,879,514
4. Loans to, and investments in, Crown corporations, schedule E.....	4,468,119,368	3,985,329,459	482,789,909
5. Loans to national governments, schedule F.....	1,210,776,466	1,339,796,827	—129,020,361
6. Other loans and investments, schedule G			
(a) Subscriptions to capital of, and working capital advances and loans to, international organizations.....	693,997,679	659,935,897	34,061,782
(b) Loans to provincial governments.....	116,817,625	97,879,073	18,938,552
(c) Veterans land act advances (less reserve for conditional benefits).....	196,018,731	177,355,101	18,663,630
(d) Miscellaneous.....	103,820,344	58,693,017	45,127,327
	1,110,654,379	993,863,088	116,791,291
7. Securities held in trust, schedule H.....	26,016,102	25,836,647	179,455
8. Deferred charges—			
(a) Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account.....	524,849,000	326,300,000	198,549,000
Public service superannuation account.....	276,661,000	276,661,000	
Royal Canadian Mounted Police superannuation account.....	3,533,000	3,533,000	
(b) Unamortized loan flotation costs, appendix No. 7.....	131,601,094	121,332,197	10,268,897
	936,644,094	727,826,197	208,817,897
9. Suspense accounts, schedule I.....	136,101	136,101	
10. Capital assets.....	1	1	
11. Inactive loans and investments, schedule J.....	94,824,381	94,824,381	
Total assets.....	11,425,753,960	10,226,061,484	1,199,692,476
12. Less: Reserve for realization of assets.....	—546,384,065	—546,384,065	
Net assets.....	10,879,369,895	9,679,677,419	1,199,692,476
13. Net debt, represented by excess of liabilities over net assets, schedule K.....	13,919,769,972	13,228,137,045	691,632,927
	24,799,139,867	22,907,814,464	1,891,325,403

The notes appearing on page 114 are an integral part of this Statement of Assets and Liabilities.

H. R. BALLS,
Comptroller of the Treasury.

R. B. BRYCE,
Deputy Minister of Finance.

(The schedules and the appendix referred to in above Statement, and the pages referred to in the two notes, are to be found in the Public Accounts, Volume I)

EXHIBIT 2

OF CANADA

LIABILITIES AS AT MARCH 31, 1963

as at March 31, 1962)

LIABILITIES

	March 31, 1963	March 31, 1962	Net increase or decrease (—) during 1962-63
14. Current and demand liabilities, schedule L			
(a) Outstanding treasury cheques.....	\$ 266,408,863	\$ 265,658,447	\$ 750,416
(b) Accounts payable (that portion paid in April of the next following fiscal year).....	267,364,119	280,711,177	-13,347,058
(c) Non-interest-bearing notes payable to the international monetary fund and the international development association.....	757,284,519	372,031,620	385,252,899
(d) Matured debt outstanding.....	32,466,821	36,438,562	-3,971,741
(e) Interest due and outstanding.....	79,460,893	73,845,656	5,615,237
(f) Interest accrued.....	196,973,991	174,601,049	22,372,942
(g) Other current liabilities.....	31,379,226	30,794,396	584,830
	1,631,338,432	1,234,080,907	397,257,525
15. Deposit and trust accounts, schedule M.....	225,202,751	266,624,103	-41,421,352
16. Annuity, insurance and pension accounts, schedule N.....	4,747,016,868	4,245,941,809	501,075,059
17. Undisbursed balances of appropriations to special accounts, schedule O.....	119,951,698	115,135,367	4,816,331
18. Deferred credits, schedule P.....	107,739,147	94,991,098	12,748,049
19. Suspense accounts, schedule Q.....	6,054,640	5,305,046	749,594
20. Unmatured debt, schedule R.			
(a) Bonds.....	15,796,836,331	15,060,736,134	736,100,197
(b) Treasury bills.....	2,165,000,000	1,885,000,000	280,000,000
	17,961,836,331	16,945,736,134	1,016,100,197

NOTE:

The indirect or contingent liabilities of the Government of Canada, consisting of railway securities guaranteed as to principal and interest, \$1,381,361,480; other guarantees of \$5,352,844,627; together with certain indeterminate guarantees, are listed on page 180.

Total liabilities.....	24,799,139,867	22,907,814,464	1,891,325,403
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Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the financial position of Canada as at March 31, 1963.

A. M. HENDERSON,
Auditor General.

**SUMMARY OF APPROPRIATIONS, EXPENDITURES AND UNEXPENDED BALANCES
BY DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1963**

Section	Department	Appropriations	Expenditures	Unexpended Balances		
				Lapsed		Carried forward ⁽¹⁾
		\$	\$	\$	\$	\$
1	Agriculture.....	243,119,696	234,826,957	328,000	7,964,739	
2	Atomic Energy.....	63,223,215	63,205,370		17,845	
3	Auditor General's Office.....	1,232,508	1,218,834		13,674	
4	Board of Broadcast Governors.....	357,935	353,913		4,022	
5	Canadian Broadcasting Corporation.....	81,769,476	80,815,947	147,143	806,386	
6	Office of the Chief Electoral Officer.....	11,816,862	11,815,352		1,510	
7	Citizenship and Immigration.....	67,920,929	66,237,381		1,683,548	
8	Civil Service Commission.....	4,961,300	4,792,379		168,921	
9	Defence Production.....	29,292,349	28,837,778		454,571	
10	External Affairs.....	88,644,062	85,196,665	191,125	3,256,272	
11	Finance.....	1,355,990,574	1,355,079,838		910,736	
12	Fisheries.....	24,825,321	23,292,700		1,532,621	
13	Forestry.....	17,111,192	16,174,971		936,221	
14	Governor General and Lieutenant-Governors.....	484,388	467,638		16,750	
15	Insurance.....	1,422,818	1,422,120		698	
16	Justice.....	9,958,690	9,802,920		155,770	
16	Office of the Commissioner of Penitentiaries.....	27,688,527	24,728,735		2,959,792	
17	Labour.....	(3)398,576,415	348,235,508		23,603,639	26,737,268
18	Legislation.....	8,471,521	8,108,063		363,458	
19	Mines and Technical Surveys.....	72,342,851	71,130,401		1,212,450	
20	National Defence.....	1,583,120,395	1,574,853,661		8,266,734	
21	National Film Board.....	5,610,700	5,610,630		70	
22	National Gallery of Canada.....	1,039,700	987,271		52,429	
23	National Health and Welfare.....	1,127,304,330	1,123,420,683		3,883,647	
24	National Research Council, including the Medical Research Council.....	41,033,953	40,596,727		437,226	
25	National Revenue.....	79,791,323	78,607,667		1,183,656	
26	Northern Affairs and National Resources...	91,970,435	87,563,579		4,406,856	
27	Post Office.....	189,943,870	189,344,410		599,460	
28	Privy Council.....	6,794,714	5,016,879		1,777,835	
29	Public Archives and National Library.....	1,049,244	1,035,471		13,773	
30	Public Printing and Stationery.....	4,088,600	3,977,442		111,158	
31	Public Works.....	175,706,970	171,384,711		4,322,259	
32	Royal Canadian Mounted Police.....	65,917,308	65,424,359		492,949	
33	Secretary of State.....	4,841,138	4,788,258		52,880	
34	Trade and Commerce.....	(3)32,122,591	30,364,666		1,757,925	
35	Transport.....	392,154,983	379,857,576	13,396	12,284,011	
35	Canadian Maritime Commission.....	30,974,434	30,967,817		6,617	
35	National Harbours Board.....	5,195,400	5,194,079		1,321	
36	Veterans Affairs.....	342,573,721	335,602,449	4,148,372	2,822,900	
		(4)6,690,444,438	(4)6,570,341,805	(2)4,828,036	88,537,329	26,737,268

(1) Available for expenditure in 1963-64.

(2) Due to special requirements of the period financed by Governor General Warrants for (1) the redemption of warrants in excess of amount appropriated (2) the spending of revenue (3) payments beyond the estimated Canadian dollar equivalent of foreign currency.

(3) Includes amounts carried forward from 1961-62 appropriations: Department of Labour \$37,457,432 and Department of Trade and Commerce \$1,169,799.

(4) In addition, parts of appropriations in respect of the following departments and expenditures in similar amounts were transferred to "Other Loans and Investments", as follows: Agriculture \$4,376,328 and National Health and Welfare \$2,000.

H. R. BALLS,
Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the expenditures as set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1963.

A. M. HENDERSON,
Auditor General.

(The sections referred to in the above Summary are those in the Public Accounts, Volume II)

SUMMARY OF REVENUE BY MAIN CLASSIFICATIONS AND DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1963

AUDITOR GENERAL'S REPORT

Section	Department	Tax revenues	Return on investments	Bullion and coinage	Postal revenue	Privileges, licences and permits	Proceeds from sales	Services and service fees	Refunds of previous years' expenditure	Miscellaneous	Total
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1	Agriculture.....					1,249,324	1,162,499	5,866,819	94,483	25,882	8,566,084
2	Atomic Energy.....		167,077								216,809
3	Auditor General's Office.....		216,809								7,604
4	Board of Broadcast Governors.....							7,624		80	563
5	Canadian Broadcasting Corporation.....					16,447			483	80	226,417
6	Office of the Chief Electoral Officer.....						625		209,345		92,821
7	Citizenship and Immigration.....		35,923			973,002	59,370	103,657	141,866	233,181	1,546,999
8	Civil Service Commission.....								27		56
9	Defence Production.....					4,060	10,572,710	178,515	111,285		14,530,131
10	External Affairs.....		3,652,107			903,449	23,325	10,586	140,814	17,452	2,267,595
11	Finance.....		1,171,959								376,522
12	Fisheries.....		210,474,267	9,404,342		115,671	169	336,596	5,723,721		226,315,617
13	Forestry.....		489,605			115,671	116,824	33,197	24,929	63,915	844,171
14	Insurance.....					85,919	108,112	7,656	25,498	565	227,750
15	Justice.....	24,889						767,652			42
16	Office of the Commissioner of Penitentiaries.....					10,445	1,573	351,571	707		702,581
17	Labour.....		165,742			57,558	528,433		26,009	319,955	687,261
18	Legislation.....		4,104				1,003	1,570		198	778,630
19	Mines and Technical Surveys.....					73,735		843	528,711	665,070	1,311,018
20	National Defence.....		345,518			26,804	288,281	15,125	573	3,375	78,526
21	National Film Board.....		504,457						126,656	299,754	1,105,138
22	National Gallery of Canada.....					1,772,109	5,130,560	2,493,860	8,782,727	2,134,806	20,818,519
23	National Health and Welfare.....								50,424		50,424
24	National Research Council including Medical Research Council.....					337,872	154,335	4,271,084	175	45	520
25	National Revenue.....	5,236,950,356	27						810,789	59,618	5,633,688
26	Northern Affairs and National Resources.....		1,428						22,557	381	22,968
27	Post Office.....	232,553	2,139			214,407	64,839	302,548	3,271	1,179,812	5,298,716,004
28	Privy Council.....		2,915			3,983,381	697,018	485,594		169,167	5,973,382
29	Public Archives and National Library.....		4,758						5,000	23,839	192,839,859
30	Public Printing and Stationery.....					100,056	1,514,711	5,520	2,792	60	13,189
31	Public Works.....		79,935,187			1,829,951	1,929,764	857	41,823	41,823	1,660,477
32	Royal Canadian Mounted Police.....		9,606			744,992	552,920	146,580	707,654	911,245	88,858,441
33	Secretary of State.....					2,463,726		12,770,311	233,573	123,582	11,413,891
34	Trade and Commerce.....					19,361	2,180	546,107	23,985	1,692	2,831,812
35	Transport.....		7,667,476			9,990,800	534,378	2,152,923	1,254,299	296,123	17,972,672
36	Veterans Affairs.....		215,991			8,149	75,490	15,217,801	762,711	155,487	29,912,198
			6,573,220						2,612,536	111,679	8,846,985
		5,236,977,384	311,860,829	9,404,342	192,771,815	25,008,212	26,531,005	46,185,576	22,392,490	7,577,225	5,878,708,878

H. R. BALLS,
Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the revenues as set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1963.

A. M. HENDERSON,
Auditor General.

(The sections referred to in the above Summary are those in the Public Accounts, Volume II)

BINDING SECT. OCT 14 1981

